SOUTH LANARKSHIRE COUNCIL

Agenda Item

Report

Report to:	**Finance and Corporate Resources Committee**
Date of Meeting:	**7 September 2022**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**Prudential Indicators, Treasury Management Activity and Annual Investment Report 2021/2022**

1. Purpose of Report

1.1. The purpose of the report is to:-

- provide an overview of the Treasury Management Activity and Prudential Code Indicators for 2021/2022
- allow Committee to scrutinise the proposed Annual Investment Report for 2021/2022

2. Recommendation(s)

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

(1) that the Treasury Management Activity Report for 2021/2022 (Section 4 and Appendix 1), be noted;
(2) that the 2021/2022 Treasury Management and Prudential Code Indicators (Section 5 and Appendix 2), be noted;
(3) that the Treasury Management Activity Report (Appendix 1) and the Treasury Management and Prudential Indicators (Appendix 2) be referred to the Executive Committee for noting;
(4) that the 2021/2022 Annual Investment Report (Appendix 3) be endorsed; and
(5) that the 2021/2022 Annual Investment Report (Appendix 3) be referred to the Executive Committee prior to submission to the Council for formal approval in line with The Local Government Investments (Scotland) Regulations 2010.

3. Background

3.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management requires councils to prepare an annual report on their Treasury Management Activities. The report covering the Council's Treasury Management Activity during 2021/2022 is summarised in Section 4 of the report and provided in detail in Appendix 1.

3.2. The Council's capital programme is partly funded by planned borrowing. The CIPFA Prudential Code provides a framework to assist the management of the financial implications of borrowing and helps to demonstrate that the borrowing is both affordable and prudent. The Code requires councils to prepare a series of financial indicators that demonstrate affordability, prudence and sustainability with regard to capital financing decisions.

3.3. Estimates of these indicators are reported to the Finance and Corporate Resources Committee at the start of each year, with selected indicators then reported on an actual basis at the end of the year. The year end indicators for 2021/2022 are noted in Section 5 of the report and detailed in Appendix 2.

3.4. The Local Government Investments (Scotland) Regulations 2010 require local authorities to prepare an Annual Investment Strategy before the start of the financial year and an Annual Investment Report after the financial year end. Both documents are required to be approved by full Council.

3.5. The Annual Investment Report for 2021/2022 is summarised in Section 6 of this report with the detail in Appendix 3.

3.6. The Annual Investment Strategy for 2021/2022 recognised that any investment activity carries an element of risk. Appendix 4 details the investments that the Council were permitted to use in 2021/2022, the associated risks and the controls and limits that were put in place to mitigate these risks.

3.7. The figures contained within this report are taken or calculated from South Lanarkshire Council's Annual Accounts for 2021/2022. It should be noted that the Annual Accounts have not yet been audited and, therefore, some of the figures may be subject to change. Significant changes to the indicators resulting from the audit will be reported back to Committee at a later date.

4. Treasury Management Activity 2021/2022

4.1. Appendix 1 details the Treasury Management Activity for 2021/2022.

4.2. The Council ended the year with debt of £993.486 million with fixed rate loans from the Public Works Loans Board (PWLB) making up 99.14% of the debt. Fixed rate loans help to build in certainty to the calculation of future loan charges which forms a significant element of the Council's long term Revenue Budget Strategy.

4.3. The Council's pooled interest rate for 2021/2022 was 3.54% (3.78% in 2020/2021), with an expenses rate of 0.07%. The overall cost of borrowing will increase as debt levels increase to fund the capital programme.

4.4. Total deposits at the end of the year totalled £132.070 million with the level varying throughout the year due to the timing of expenditure and receipts.

4.5. During 2021/2022, the Council placed £1,589.610 million of deposits on a cumulative basis. All deposits made by the Council were in line with approved lending limits and credit rating criteria. The level of investment return was £0.104 million.

5. Treasury Management and Prudential Code Indicators – 2021/2022

5.1. The Council is required by the Prudential Code to report the actual prudential indicators after the closure of the financial year. Appendix 2 details the indicators for 2021/2022.

5.2. The General Fund Capital Expenditure for 2021/2022 was £60.338 million which is £12.095 million less than estimated in the Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy report presented to South Lanarkshire Council in February 2022. The details of this have been reported to the Executive Committee over recent months, with a final position being reported on 29 June 2022.

5.3. The Housing Revenue Account Capital Expenditure in 2021/2022 was £73.181 million which is £6.459 million less than the estimate reported to South Lanarkshire Council in February 2022. The details of this have been reported to the Executive Committee over recent months, with a final position being reported on 29 June 2022.

5.4. The Council's gross borrowing position for 2021/2022 was £1,179.776 million. This consists of external borrowing of £993.486 million and the PPP Finance Lease Liability of £186.290 million. Gross borrowing is less than the capital financing requirement of £1,298.460 million due to the fact that only £28.900 million of long-term borrowing was taken during 2021/2022.

5.5. The Council used its significant cash balances available in lieu of the remainder of its borrowing requirement for the year. Borrowing before cash was required would incur a cost of carry as the interest rates achievable on deposits continue to be less than the interest rates on borrowing.

5.6. By borrowing only £28.900 million, interest costs for 2021/2022 were reduced and savings from this used to support the Revenue Budget Strategy going forward.

5.7. The Capital Financing Requirement for the General Fund is £15.211 million lower than forecast and for HRA is £10.604 million lower than forecast. For both the General Fund and HRA this is due to changes in the borrowing required to fund the capital programmes reflecting the timing of expenditure and movements in other sources of funding.

5.8. One indicator covers borrowing and sets limits on the level of borrowing that the Council can have: The Operational Boundary is the expected borrowing position, but it can vary due to changes in the cash flow and temporary breaches are acceptable. In contrast, the Authorised Limit represents the maximum level of debt the Council can afford and should not be breached. The Council remained within both the Operational Boundary and Authorised Limit for gross debt during 2021/2022.

6. Annual Investment Report – 2021/2022

6.1. The Council is required by The Local Government Investments (Scotland) Regulations 2010 to prepare an Annual Investment Report after the financial year end. The Annual Investment Report for financial year 2021/2022 is detailed in Appendix 3 and summarised below.

6.2. During 2021/2022, the Council placed £1,589.610 million of deposits on a cumulative basis. All deposits made by the Council were in line with approved lending limits and credit rating criteria. £1,168.165 million (73.49%) of deposits were made with counterparties of very high credit quality (UK Government – Debt Management Account Deposit Facility (DMADF) and other local authorities). The remaining £421.445 million (26.51%) was deposited in instant access call accounts with Bank of Scotland and Royal Bank of Scotland.

6.3. In order to manage liquidity risk, the Council held an average of £22.503 million in bank accounts with instant access.

6.4. No borrowing in advance was taken during 2021/2022.

7. Employee Implications

7.1. None

8. Financial Implications

8.1. The financial impact from treasury activity and borrowing for capital expenditure has been built into the long-term Revenue Budget Strategy.

8.2. In 2021/2022 the amounts charged to the General Fund in relation to debt (loan charges) totalled £33.035 million. HRA loan charges totalled £15.716 million. These costs were met from within approved Revenue Budgets.

9. Climate Change, Sustainability and Environmental Implications

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

9.2. There is also no requirement to carry out an environmental impact assessment in terms of the information contained within this report.

10. Other Implications

10.1. South Lanarkshire Council recognises that any Treasury Management Activity will carry an element of risk. It is important that risk is identified and controls put in place to limit those risks.

10.2. The Council has complied with all of the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the CIPFA Treasury Management Code of Practice means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low-risk approach.

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. Appendix 4 to this report details the investments that the Council was permitted to use in 2021/2022, the associated risks and the controls and limits that were put in place to mitigate 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 (Finance and Corporate Resources)

16 August 2022

Link(s) to Council Values/Priorities/Outcomes

- Value: Accountable, effective, efficient and transparent

Previous References

- Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2021/2022, Executive Committee, 10 February 2021
- Treasury Management Activity – First Quarter Review, Finance and Corporate Resources Committee, 1 September 2021
- Treasury Management Activity – Second Quarter Review, Finance and Corporate Resources Committee, 10 November 2021
- Treasury Management Activity – Third Quarter Review, Finance and Corporate Resources Committee, 9 February 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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Appendix 1

Treasury Management Activity Report 2021/2022

1. Background

1.1. The Annual Treasury Management Activity Report is a requirement of the Council's reporting procedures and covers 2021/2022. The report also includes the Treasury Management Indicators for 2021/2022 in accordance with the requirements of the CIPFA Code of Practice for Treasury Management in the Public Sector and actual Prudential Indicators for 2021/2022 in accordance with the requirements of the Prudential Code.

2. Introduction

2.1. The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

2.2. The Local Government in Scotland Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SSI) 29 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and, therefore, to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

2.3. The CIPFA Code of Practice requires reports to be made on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

2.4. This report will cover:

- A summary of the strategy agreed for 2021/2022;
- The Council's treasury position at 31 March 2022;
- Economic Background for 2021/2022;
- Actual Performance During 2021/2022;
- Risk Management;
- Treasury Management and Prudential Indicators (see Appendix 2)

3. The Strategy Agreed for 2021/2022

3.1. At the time of determining the strategy for 2021/2022, economic and interest rate forecasting remained difficult with many external influences weighing on the UK.

3.2. Public Works Loans Board (PWLB) rates and gilt yields were expected to remain volatile as markets reacted to emerging economic data, with the overall long-term trend being for them to increase marginally.

3.3. The differential between investment earnings and debt costs was expected to remain high throughout 2021/2022. This “cost of carrying” would have to be considered if borrowing was taken before our cash flow required funds as returns on deposits were expected to remain lower than the rate paid on borrowing.

3.4. The borrowing strategy adopted was to monitor interest rates, undertake planned borrowing at the best time, while investigating opportunities where possible to improve the management of our existing loan portfolio.

3.5. The main consideration when investing surplus funds was to be the security of the transaction. Liquidity would then be considered and investments would only be made for prudent time periods. Only after considering security and liquidity would the yield to be gained from the investment be considered.

3.6. The Executive Director of Finance and Corporate Resources would apply appropriate restrictions to the Council’s counterparty list to ensure the security of deposits.

4. Treasury Position at 31 March 2022

4.1. The Council began the year with debt of £1,005.540m with fixed rate loans from the Public Works Loans Board (PWLB) making up 99.15% of the debt. By 31 March 2022, debt had decreased to £993.486m of which 99.14% was fixed rate loans from the PWLB.

4.2. Table 1 below shows the movement in borrowing to 31 March 2022.

Table 1 – Movement in Borrowing from 1 April 2021 to 31 March 2022.

	Balance as at 01/04/2021 £m	New Borrowing £m	Debt Maturing £m	Debt Repaid £m	Balance as at 31/03/2022 £m	Increase/ Decrease in Borrowing £m
Short Term Borrowing	40.954	7.000	(47.954)	0.00	0.000	(40.954)
Long Term Borrowing	964.586	28.900	0.00	0.00	993.486	28.900
TOTAL BORROWING	1,005.540	35.000	(47.954)	0.00	993.486	(12.054)

4.3. The Treasury Position at the 31 March 2022 compared with the previous year is shown in Table 2 overleaf:

Table 2 – Treasury Position as at 31 March 2022

	31 March 2022		31 March 2021	
	Principal	**Average Rate**	**Principal**	**Average Rate**
Fixed PWLB	£984.986m	3.91%	£997.004m	3.92%
Fixed Market	£0.000m	0.00%	£0.036m	0.00%
Total Fixed Rate Debt	**£984.986m**	**3.91%**	**£997.040m**	**3.92%**
Market	£8.500m	5.46%	£8.500m	5.46%
Total Variable Rate Debt	**£8.500m**	**5.46%**	**£8.500m**	**5.46%**
Total Debt	**£993.486m**	**3.92%**	**£1,005.540m**	**3.93%**
Total Deposits	**£132.070m**	**0.48%**	**£171.100m**	**0.04%**

4.4. The gross debt position decreased by £12.054m from 31 March 2021, accounted for by repayments of PWLB (£40.918m), repayments of the interest free loan from Salix (£0.036m) offset by new borrowing from the PWLB (£28.900m).

4.5. The Council's pooled cost of borrowing is measured on an equated debt basis which takes account of how the Council's capital expenditure was funded throughout the year. The pooled interest cost together with the expenses rate for 2021/2022 and the previous two years is shown in Table 3 below:

Table 3 – Pooled Cost of Borrowing

Year	Loans Fund Pooled Rate	Loans Fund Expenses Rate
2021/22	3.54%	0.07%
2020/21	3.78%	0.06%
2019/20	3.89%	0.07%

5. Economic Background for 2021/2022

5.1. Following two emergency cuts in March 2020, the Bank of England base rate remained unchanged at 0.10% until the Bank of England began a series of increases during the latter part of 2021/2022 in order to control rising inflation. The base rate ended the year at 0.75%.

5.2. Gilt yields and PWLB rates fell towards the end of 2021 but began to rise in 2022. These rises have been part of a global trend as central banks across the world suggested they will continue to increase interest rates to contain inflation.

5.3. Details of significant interest rates during 2021/2022 are shown in Table 4 below.

Table 4 – Significant Interest Rates

		Borrowing Rates						
	Bank Base Rate	**1 Year PWLB**	**5 Year PWLB**	**10 Year PWLB**	**20 Year PWLB**	**30 Year PWLB**	**40 Year PWLB**	**50 Year PWLB**
High	0.75%	2.03%	2.37%	2.52%	2.76%	2.70%	2.57%	2.49%
Average	0.19%	1.13%	1.45%	1.78%	2.09%	2.07%	1.95%	1.85%
Low	0.10%	0.78%	1.05%	1.39%	1.69%	1.60%	1.39%	1.25%

6. Actual Performance during 2021/2022

6.1. Capital expenditure for the year was £133.519m. During 2021/2022 the Council secured £28.900m of long term borrowing from the PWLB. This was the first long-term borrowing that had been taken since 2018/2019. This borrowing was to fund capital expenditure and maturing debt from 2019/2020 and 2020/2021. Details of the long-term borrowing taken from the PWLB during 2021/2022 are shown in Table 5 below.

Table 5 – PWLB Long Term Borrowing, 1 April 2020 – 31 March 2021

Loan Ref.	Period	Principal £m	Rate %	Year High	Year Low	Year Average
498423	6 - 6½ Yrs	£0.148	2.14	2.40	1.16	1.55
498426	7 - 7½ Yrs	£0.696	2.18	2.43	1.23	1.62
498428	8 - 8½ Yrs	£12.933	2.23	2.46	1.29	1.69
498430	9 - 9½ Yrs	£12.090	2.29	2.50	1.39	1.75
498432	10 - 10½ Yrs	£3.033	2.34	2.55	1.42	1.81
		£28.900	**2.26**			

6.2. Borrowing was taken at interest rates that were consistent with the Council's long-term borrowing strategy, and while borrowing could have been taken at lower variable interest rates during 2021/2022, there was no need to borrow due to the level of cash balances that the Council had available. Delaying the borrowing until later in the year and limiting the amount borrowed to only £28.900m reduced interest costs for 2021/2022 and generated savings that were used to support the Revenue Budget Strategy going forward.

6.3. During 2021/2022, the Council placed £1,589.610m of deposits on a cumulative basis. All deposits made by the Council were in line with approved lending limits and credit rating criteria. The level of investment return was £0.104m. Further details on deposits are included in the annual investment report within this Committee paper.

7. Risk Management

7.1. The Council has complied with all of the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the CIPFA Treasury Management Code of Practice means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

7.2. **Investment Risk**

The main consideration when investing surplus funds is the security of the transaction. Through adoption on the CIPFA Code of Practice and through the Councils Annual Investment Strategy the Council mitigates risks associated with all our permitted investments.

7.3. **Interest Rate Risk**

The Council's capital programme is funded in part by borrowing. Consideration has always been given to the optimum time to borrow funds to ensure cash flow is maintained, that any risks of increasing borrowing interest rates are minimised and that takes into account the level of cash balances available to the Council.

8. Treasury Management and Prudential Indicators

8.1. The Treasury Management and Prudential Indicators are detailed in Appendix 2 to this report.

Appendix 2

Treasury Management and Prudential Indicators 2021/2022

1. Treasury Management Indicators 2021/2022

1.1. The Treasury Management Code includes Treasury Management Indicators which are to be reported alongside the Treasury Strategy.

1.2. The purpose of these 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. The indicators are detailed below.

2. Maturity Structure of Borrowing

2.1. By setting limits on the maturity structure of borrowing, the exposure to large concentrations of fixed rate 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.

Maturity Structure of Borrowing				
	Upper Limit	Lower Limit	Maximum for period to 31/03/22	Actuals as at 31/03/22
Under 12 months	30%	0%	4.07%	0.00%
12 months and 24 months	30%	0%	4.54%	4.42%
24 months and 5 years	50%	0%	12.20%	11.86%
5 years and 10 years	50%	0%	35.41%	35.82%
10 years and 20 years	60%	0%	12.42%	13.60%
20 years and 30 years	70%	0%	0.05%	0.05%
30 years and 40 years	80%	0%	35.22%	34.25%
40 years and 50 years	90%	0%	0.00%	0.00%
50 years and above	90%	0%	0.00%	0.00%

3. Total Principal Sums Invested for Greater Than 364 days

3.1. The investment regulations introduced by the Scottish Government allowed the Council to invest for periods in excess of 364 days. 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.

3.2. South Lanarkshire Council set a limit restricting investments for periods in excess of 364 days to no more than £10m and for no more than 5 years.

3.3. No investment was made during 2021/2022 for a period in excess of 364 days.

4. Statutory Repayment of Loans Fund Advances

4.1. 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.

4.2. The Council's capital programmes are partly funded by planned borrowing which is advanced from the Council's Loans Fund. Repayment of these advances is made each year and forms part of the Council's revenue expenditure. Borrowing to fund the capital programmes, therefore, creates a liability to repay those advances from future years' budgets. The Council is required to report on the commitment to repay loans fund advances.

4.3. The General Fund had an opening balance of £819.382m advances from the Loans Fund. During 2021/2022 new advances of £10.196m were made to part fund the Capital Programme, while repayments of £2.402m were made from the Council's revenue expenditure. This left a closing balance of £827.176m to be repaid over the next 50 years.

4.4. The HRA had an opening balance of £249.707m advances from the Loans Fund. During 2021/2022 new advances of £39.942m were made to part fund the HRA Capital Programme, while repayments of £6.808m were made from the HRA. This left a closing balance of £282.841m to be repaid over the next 40 years.

4.5. The tables below show the repayment profile of the outstanding loans fund advances for both General Fund and HRA as at 31 March 2022. The tables do not include any planned borrowing that may be taken in future years to fund the ongoing capital programmes.

General Fund	Opening Balance	New Advances	Repayments	Closing Balance
2021/22	819.382	10.196	-2.402	827.176
2022/23	827.176	0.000	-2.821	824.355
2023/24 – 2026/27	824.355	0.000	-38.797	785.558
2027/28 – 2031/32	785.558	0.000	-99.475	686.083
2032/33 – 2036/37	686.083	0.000	-110.342	575.741
2037/38 – 2041/42	575.741	0.000	-121.316	454.425
2042/43 – 2046/47	454.425	0.000	-123.508	330.917
2047/48 – 2051/52	330.917	0.000	-119.323	211.594
2052/53 – 2056/57	211.594	0.000	-109.629	101.965
2057/58 – 2061/62	101.965	0.000	-43.011	58.954
2062/63 – 2066/67	58.954	0.000	-50.930	8.024
2068/69 – 2071/72	8.024	0.000	-8.024	0.000

Housing Revenue Account	Opening Balance	New Advances	Repayments	Closing Balance
2021/22	249.707	39.942	-6.808	282.841
2022/23	282.841	0.000	-7.137	275.704
2023/24 – 2026/27	275.704	0.000	-31.920	243.784
2027/28 – 2031/32	243.784	0.000	-48.126	195.658
2032/33 – 2036/37	195.658	0.000	-55.918	139.740
2037/38 – 2041/42	139.740	0.000	-29.422	110.318
2042/43 – 2046/47	110.318	0.000	-33.196	77.122
2047/48 – 2051/52	77.122	0.000	-36.633	40.489
2052/53 – 2056/57	40.489	0.000	-26.090	14.399
2057/58 – 2061/62	14.399	0.000	-14.399	0.000

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

5. Prudential Code Indicators 2021/2022

5.1. The Prudential Code enables Councils 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

5.2. To meet the objectives of the Code, the Council is required to report a number of indicators, use those to demonstrate the affordability and sustainability of our capital plans and to show that good treasury management practice is adhered to.

6. Capital Expenditure and Borrowing Requirement indicators

6.1. Capital Expenditure

6.1.1 This indicator shows the capital expenditure for 2021/2022. The 2021/2022 estimate is also shown.

	Actual £ m	Estimate £ m	Variance £ m
General Fund Capital Expenditure	**60.338**	**72.433**	**-12.095**
Funded by:			
Borrowing	10.196	25.408	-15.212
Capital receipts and grants	47.781	43.688	4.093
Revenue contributions	2.361	3.337	-0.976
Total Funding	**60.338**	**72.433**	**-12.095**
HRA Capital Expenditure	**73.181**	**79.640**	**-6.459**
Funded by:			
Borrowing	39.942	50.532	-10.590
Capital receipts and grants	13.602	9.471	4.131
Revenue contributions	19.637	19.637	0.000
Total Funding	**49.362**	**79.640**	**-6.459**

6.1.2. The General Fund Capital Expenditure for 2021/2022 was £60.338m which is £12.095m less than estimated in the Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy report presented to South Lanarkshire Council in February 2022. The details of this have been reported to the Executive Committee over recent months, with a final position being reported on 29 June 2022.

6.1.3. The Housing Revenue Account Capital Expenditure in 2021/2022 was £73.181m which is £6.459m less than the estimate reported to South Lanarkshire Council in February 2022. The details of this have been reported to the Executive Committee over recent months, with a final position being reported on 29 June 2022.

6.2. Councils Borrowing Requirement (the Capital Financing Requirement)

6.2.1. The Council's Capital Financing 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 requirement to borrow for past and present capital expenditure and is comparable to the actual borrowing taken and finance lease liability.

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

6.2.3. Over the medium-term borrowing should only be for a capital purpose. Gross borrowing should not, except in the short term, exceed the CFR for 2021/2022 plus any additional capital financing requirement over 2022/2023 and the following two financial years. The table below demonstrates that the Council has complied with this requirement

6.2.4. The Capital Financing Requirement for the General Fund is £15.211m lower than forecast and for HRA is £10.604m lower than forecast. For both the General Fund and HRA this is due to changes in the borrowing required to fund the capital programmes reflecting the timing of expenditure and movements in other sources of funding.

	31 March 2022 Actual £ m	31 March 2022 Estimate £ m	Variance
General Fund Capital Financing Requirement	1,015.606	1,030.817	-15.211
HRA Capital Financing Requirement	282.854	293.458	-10.604
Total Capital Financing Requirement	**1,298.460**	**1,324.275**	**-25.816**
Treasury Position as at 31 March 2021			
Borrowing	993.486	964.586	28.900
PPP Finance Lease Liability	186.290	186.290	0.000
Gross Debt	**1,179.776**	**1,150.876**	**28.900**

6.2.5. The Council's gross borrowing position for 2021/2022 was £1,179.776m. This consists of external borrowing of £993.486m and the PPP Finance Lease Liability of £186.290m. Gross borrowing is less than the capital financing requirement of £1,298.460m due to the fact that only £28.900m of long-term borrowing was taken during 2021/2022.

6.2.6. The Council used the significant cash balances it had available in lieu of the remainder of its borrowing requirement. Borrowing before cash was required would incur a cost of carry as the interest rates achievable on deposits continue to be less than the interest rates on borrowing.

6.2.7. By borrowing only £28.900m interest costs for 2021/2022 were reduced and savings from this used to support the Revenue Budget Strategy going forward.

6.3. Limits to Borrowing Activity

6.3.1. 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, and also includes sufficient scope to allow for changes to the capital programme throughout the year. This limit may be breached during the year, and this will be reported in the Prudential report presented to Committee after year end.

6.3.2. 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 would not be breached without the Finance and Corporate Resources Committee being advised.

	2021/2022 £ m
Operational Limit for External Debt	1,340.000
Authorised Limit for External Debt	1,360.000
Maximum Borrowing Position During the Period	**1,005.540**
Operational Limit for Other Liabilities (PPP/Finance Lease)	200.000
Authorised Limit for Other Liabilities (PPP/Finance Lease)	200.000
Maximum PPP/Finance Lease Liability	**193.743**

6.3.3. The table demonstrates that during 2021/2022 the Council maintained its borrowing and other liabilities within their Authorised Limits and Operational Boundaries.

7. Affordability Indicators

7.1. Ratio of Financing Costs to Net Revenue Stream

7.1.1. 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.

	2021/22 Actual £ m	**2021/22 Estimate £ m**
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	5.18%	5.56%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	16.04%	16.21%

7.1.2. For the General Fund, the ratio is less than forecast due to the Net Revenue Stream being higher than forecast, reflecting additional funding from the Scottish Government to assist with the response to COVID-19.

7.1.3. For the HRA, the ratio is less due to slightly higher borrowing costs than forecast offset by additional income.

Appendix 3

Annual Investment Report

1. Permitted Investments

1.1. During 2021/2022 South Lanarkshire Council only used the following permitted investments

- Deposits with the Debt Management Account Deposit Facility
- Deposits with UK Local Authorities
- Deposits with Banks and Building Societies

1.2. Deposits made in the period 1 April 2021 to 31 March 2022 totalled £1,589.610m. This is broken down per sector and institution in the table below. 57.51% of these deposits were made in the UK Government through the Debt Management Account Deposit Facility (DMADF).

Counterparty	Deposit Totals (£m)	% of Total Deposits	Average Interest Rate
Deposits in UK Government			
Debt Management Account Deposit Facility	914.165	57.51%	0.11%
Total Deposits in UK Government	**914.165**	**57.51%**	**0.11%**
Deposits in UK Local Authorities	**254.000**	**15.98%**	**0.13%**
Deposits in UK Banks and Building Soc.			
Bank of Scotland	162.295	10.21%	0.23%
Royal Bank of Scotland	259.150	16.30%	0.01%
Total Deposits in UK Banks	**421.445**	**26.51%**	**0.10%**
Total Deposits 01/04/2020 to 31/03/2021	**1,589.610**	**100.00%**	**0.11%**

1.3. The average interest rates achieved from the deposits are shown in the table above. Following the onset of the coronavirus pandemic, the Bank of England made two emergency cuts, first from 0.75% to 0.25% on 11 March 2020 and then to 0.10% on 19 March 2020.

1.3. On 16 December 2021, the Bank of England increased the base rate to 0.25%. This was followed by further increases of 0.25% in February and March 2022 to control rising inflation.

1.4. Actual deposits as at 31 March 2022 totalled £132.070m.

2. Risk Management

2.1. The following minimum thresholds were set in the strategy for all deposits with banks and building societies, including Certificate of Deposits.

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

2.2. Prior to depositing funds with any bank or building society, checks are 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..

2.3. The tables below show a breakdown of deposits with details of the credit ratings of banks and building societies used from 1 April 2021 to 31 March 2022. Deposits with the DMADF are with the UK Government and so have a very high credit rating. Deposits with local authorities are considered to be of very high credit quality despite most local authorities not having formal credit ratings.

Fitch Ratings

Long Term Rating	Short Term Rating	Deposits Totals	Percentage of Total Deposits
Deposits in DMADF (AA-)		914.165m	57.51%
Deposits with Local Authorities		254.000m	15.98%
A+	F1	421.445m	26.51%
Total		**1,589.610m**	**100.00%**

Moody’s Ratings

Long Term Rating	Short Term Rating	Deposits Totals	Percentage of Total Deposits
Deposits in DMADF (Aa3)		914.165m	57.51%
Deposits with Local Authorities		254.000m	15.98%
A1	P-1	421.445m	26.51%
Total		**1,589.610m**	**100.00%**

Standard and Poor’s Ratings

Long Term Rating	Short Term Rating	Deposits Totals	Percentage of Total Deposits
Deposits in DMADF (AA)		914.165m	57.51%
Deposits with Local Authorities		254.000m	15.98%
A+	A-1	162.295m	10.21%
A	A-1	259.150m	16.30%
Total		**1,589.610m**	**100.00%**

2.4. The tables show that 84.23% of deposits were made with counterparties of very high credit quality (UK Government - DMADF and other local authorities). All deposits made by the Council were in line with approved lending limits and credit rating criteria.

2.5. In order to manage liquidity risk the Council held an average of £22.503m in bank accounts with instant access.

2.6. No deposits were placed for periods in excess of 364 days.

3. Borrowing in Advance

3.1. No borrowing in advance was taken during 2021/2022.

Appendix 4

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

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

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