Public Document Pack

Sefton Council

MEETING:	CABINET
DATE:	Thursday 11th February, 2021
TIME:	10.00 am
VENUE:	Remote

DECISION MAKER: **CABINET**

Councillor Maher (Chair)
Councillor Atkinson
Councillor Cummins
Councillor Fairclough
Councillor Hardy
Councillor John Joseph Kelly
Councillor Lappin
Councillor Moncur
Councillor Veidman

COMMITTEE OFFICER: Ruth Harrison
Democratic Services Manager
Telephone: 0151 934 2042
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The Cabinet is responsible for making what are known as Key Decisions, which will be notified on the Forward Plan. Items marked with an * on the agenda involve Key Decisions
A key decision, as defined in the Council's Constitution, is: -

- any Executive decision that is not in the Annual Revenue Budget and Capital Programme approved by the Council and which requires a gross budget expenditure, saving or virement of more than £100,000 or more than 2% of a Departmental budget, whichever is the greater
- any Executive decision where the outcome will have a significant impact on a significant number of people living or working in two or more Wards

If you have any special needs that may require arrangements to facilitate your attendance at this meeting, please contact the Committee Officer named above, who will endeavour to assist.

We endeavour to provide a reasonable number of full agendas, including reports at the meeting. If you wish to ensure that you have a copy to refer to at the meeting, please can you print off your own copy of the agenda pack prior to the meeting.

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A G E N D A

Items marked with an * involve key decisions

	Item No.	Subject/Author(s)	Wards Affected	
	1	**Apologies for Absence**		
	2	**Declarations of Interest** Members are requested at a meeting where a disclosable pecuniary interest or personal interest arises, which is not already included in their Register of Members' Interests, to declare any interests that relate to an item on the agenda. Where a Member discloses a Disclosable Pecuniary Interest, he/she must withdraw from the meeting room by switching their camera and microphone off during the whole consideration of any item of business in which he/she has an interest, except where he/she is permitted to remain as a result of a grant of a dispensation. Where a Member discloses a personal interest he/she must seek advice from the Monitoring Officer or staff member representing the Monitoring Officer to determine whether the Member should withdraw from the meeting room, including from the public gallery, during the whole consideration of any item of business in which he/she has an interest or whether the Member can remain in the meeting or remain in the meeting and vote on the relevant decision.		
	3	**Minutes of the Previous Meeting** Minutes of the meeting held on 4 February 2021 to follow		
*	4	**Prudential Indicators 2021/22** Report of the Executive Director of Corporate Resources and Customer Services	All Wards	(Pages 5 - 16)
*	5	**Treasury Management Policy and Strategy 2021/22** Report of the Executive Director of Corporate Resources and Customer Services	All Wards	(Pages 17 - 48)

*	6	**Capital Strategy 2021/22 to 2025/26** Report of the Executive Director of Corporate Resources and Customer Services	All Wards	(Pages 49 - 68)
*	7	**Robustness of the 2021/22 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25** Report of the Executive Director of Corporate Resources and Customer Services	All Wards	(Pages 69 - 88)
*	8	**Revenue and Capital Budget Plan 2021/22 – 2023/24 and Council Tax 2021/22** Report of the Executive Director of Corporate Resources and Customer Services	All Wards	(Pages 89 - 130)
*	9	**Street Lighting Asset Project** Report of the Head of Highways and Public Protection	All Wards	(Pages 131 - 184)

Report to:	Cabinet Council	**Date of Meeting:**	11 February 2021 4 March 2021
Subject:	Prudential Indicators 2021/22		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

The CIPFA Prudential Code for Capital Finance in Local Authorities was introduced following the Local Government Act 2003. It details a number of measures / limits / parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will provide a benchmark to measure actual performance against, to help ensure that the Council complies with relevant legislation, is acting prudently and that its capital expenditure proposals are affordable.

Recommendation(s):

Cabinet is recommended to:

1) Recommend to Council that the Prudential Indicators (as detailed in the report) are set as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
2) Note that the relevant Prudential Indicators will be revised as required and that any changes will be brought to Cabinet and then to Council for approval;
3) Note that the estimates of capital expenditure may change as grant allocations are received; and
4) Recommend to Council that authority is delegated to the Executive Director for Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 5 of the report.

Council is recommended to:

1) Approve the Prudential Indicators (as detailed in the report) as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
2) Note that relevant Prudential Indicators will be revised as required and that any changes will be brought to Cabinet and then to Council for approval;
3) Note that the estimates of capital expenditure may change as grant allocations are received; and
4) Delegate authority to the Executive Director for Corporate Resources and

Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 5 of the report.

Reasons for the Recommendation(s):

To enable the Council to effectively manage its Capital Financing activities and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year.

Alternative Options Considered and Rejected:

None

What will it cost and how will it be financed?

(A) Revenue Costs

n/a

(B) Capital Costs

n/a

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): The prudential indicators will allow for capital spending obligations to be managed within the budget for 2021/22.
Legal Implications: None.
Equality Implications: None.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: n/a
Facilitate sustainable economic prosperity: Support Capital Investment by measuring the impact and affordability of decisions over the medium-term financial planning horizon.
Greater income for social investment: n/a

Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director for Corporate Resources and Customer Services (FD6277/21) is the author of the report.

The Chief Legal and Democratic Officer (LD4478/21) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

None.

Implementation Date for the Decision

With immediate effect.

Contact Officer:	Graham Hussey
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Email Address:	Graham.Hussey@sefton.gov.uk

Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Introduction

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. It details a number of measures/limits/parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will ensure that the Council complies with the relevant legislation, is acting prudently and that its capital expenditure proposals are affordable.

1.2. CIPFA introduced a revised version of the code in December 2017 and this has been adopted in setting the estimated Prudential Indicators for financial years 2020/21 to 2023/24.

1.3. The Council is required to approve Prudential Indicators for the following items:

(i) Capital Expenditure (Section 2);
(ii) Financing Costs/Net Revenue Stream (Section 3);
(iii) Capital Financing Requirement (Section 4);
(iv) External Debt (Section 5-7);
(v) Treasury Management Indicators (Section 8).

1.4. The above indicators are presented in the following paragraphs and summarised at Annex A.

2. Prudential Indicator – Capital Expenditure

2.1. This indicator details the overall total planned capital expenditure of the Council and therefore reflects the Council's Capital Programme.

2.2. The actual capital expenditure that was incurred in 2019/20 is shown below and the estimated current and future years capital programme are recommended for approval:

Capital Expenditure - 2019/20 to 2023/24					
	2019/20 £m Actual	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
TOTAL	25.175	33.165	52.343	17.528	5.988

2.3. The estimated levels of expenditure above represent those elements approved by Council and which have been included within the Capital Programme.

2.4. The increase in capital expenditure during 2020/21 and 2021/22 represents additional allocations added as part of the traditional capital programme and new schemes included in the Council's Strategic Investment Programme. The majority of the additional expenditure will be funded from external grants, contributions and capital receipts. This may change as grant allocations and additional capital schemes are made known to the Council and are approved for inclusion within the Capital Programme.

3. Prudential Indicator – Financing Costs/Net Revenue Stream

3.1. This indicator measures the total capital financing costs of capital expenditure as a proportion of the total level of income from Government Grants, local Council Tax and Business Rates payers. This measure demonstrates the affordability of capital plans by comparing the cost of borrowing undertaken to fund the capital programme (in previous years and for planned expenditure in future years) to the net revenue available to the Council in each of those years.

3.2. Actual figures for 2019/20 and estimates of the ratio for 2020/21 and future years are:

Financing Costs / Net Revenue Stream					
	2019/20 £m Actual	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
Ratio	3.7%	4.2%	3.8%	3.6%	3.2%

3.3. The estimates of financing costs include current commitments and proposals contained in the capital programme and new borrowing requirements in the Capital Programme. These borrowing requirements include projects and schemes that generate savings and income streams to the council that support repayment schedules.

3.4. The increase in financing costs forecast during 2020/21 is the result of an upfront payment to Merseyside Pension Fund (£43.623m) which is funded by borrowing.

3.5. The Merseyside Pension Fund offered the Council the opportunity to prepay (in April 2020) a proportion of the total expected contributions for the three-year valuation period at a discount. The Council has previously taken a similar opportunity at the start of the last two valuation periods. Officers discussed the proposal with both the Merseyside Pension Fund and the Council's external auditors.

3.6. The borrowing will be repaid across the three years of the valuation period, funded by the Council making significantly reduced payments the Merseyside Pension Fund each month during the period. After allowing for these borrowing costs, as stated, this will generate a significant net saving to the Council.

4. Prudential Indicator – Capital Finance Requirement

4.3. The Capital Financing Requirement (CFR) indicator reflects the Authority's underlying need to borrow for a capital purpose. This is based on historic capital financing decisions and a calculation of future years planned capital expenditure requirements.

4.4. Actual 2019/20 and estimated year-end Capital Financing Requirements for current and future years are set out in the table below:

Capital Financing Requirement					
	31/03/20 £m Actual	31/03/21 £m Estimate	31/03/22 £m Estimate	31/03/23 £m Estimate	31/03/24 £m Estimate
CFR	230,300	232,137	240,055	237,198	233,795

5. Prudential Indicator – Borrowing Limits

5.1. External borrowing undertaken by the Council arises as a consequence of all the financial transactions of the Authority, both capital and revenue, and not simply those arising from capital spending. The Council manages its Treasury Management position in terms of its external borrowings and investments in accordance with its approved Treasury Management Strategy and Policy Statements. These documents are presented for approval elsewhere on this agenda.

5.2. The Operational Boundary

5.2.1. The Operational Boundary sets a limit on the total amount of long-term borrowing that the Council can undertake. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with approved Treasury Management Policy Statement and practices. The figures are based on prudent estimates.

5.2.2. In respect of the Operational Boundary, it is recommended that the Council approves the following limits for the next three financial years. These limits separately identify borrowing from other long-term liabilities arising from finance leases, PFIs and the transferred debt from the now defunct Merseyside Residuary Body.

Operational Boundary				
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	220.000	222.000	211.000	206.000
Other Long-Term Liabilities	9.000	8.000	7.000	6.000
TOTAL	229.000	230.000	218.000	212.000

5.2.3. The Council is asked to approve these limits and to delegate authority to the Executive Director for Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year.

5.3. The Authorised Limit

5.3.1. The Authorised Limit sets a boundary on the amount of borrowing (both short and long-term) that the Council undertakes. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements. Under the terms of section 3 (1) of the Local Government Act 2003, the Council is legally obliged to determine and review how much it can afford to borrow i.e. the Authorised Limit. The Authorised Limit determined for 2021/22 will be the statutory limit determined under section 3 (1).

5.3.2. The Council is asked to delegate authority to the Executive Director for Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year. Any such changes will be reported to Members at the next available meeting. The Authorised Limit for external debt is as follows:

Authorised Limit				
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	235.000	237.000	226.000	221.000
Other Long Term Liabilities	9.000	8.000	7.000	6.000
TOTAL	244.000	245.000	233.000	227.000

6. Prudential Indicator – Actual External Debt

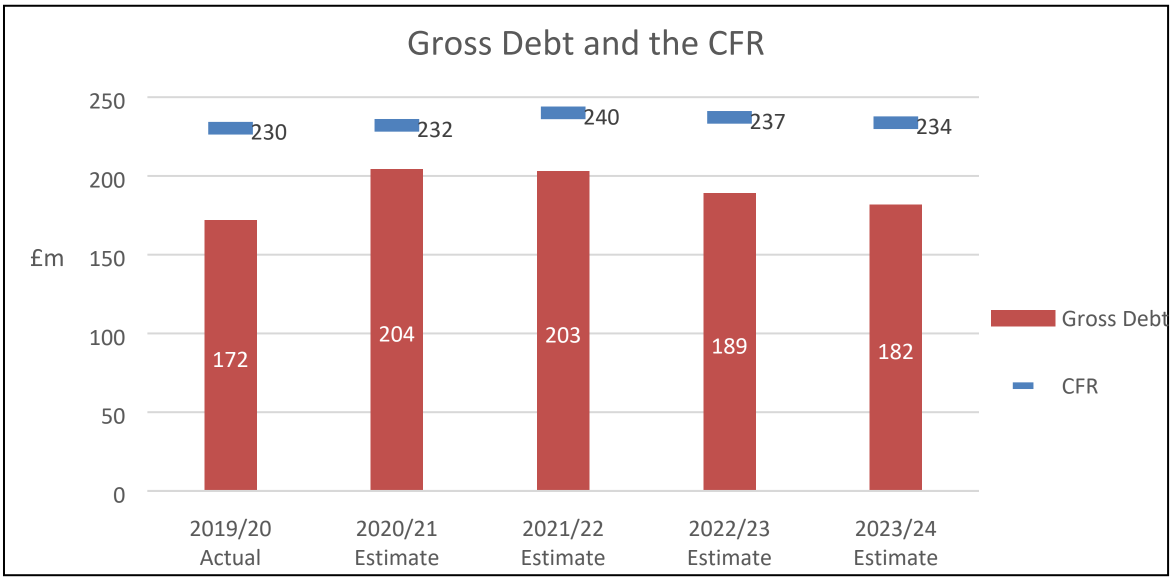
6.1. The Prudential Code requires that in setting indicators for 2021/22, the Council reports its actual levels of external debt as at 31st March 2020. The Council's actual external debt at 31st March 2020 was:

	31/03/2020 £m
Borrowing	162.674
Other Long Term Liabilities	9.274
TOTAL	171.948

7. Gross Debt and the Capital Financing Requirement

7.1. This prudential indicator is used to ensure that the authority does not borrow in advance of need. If the authority borrowed in advance of need then the net position would be negative – i.e. borrowing greater than the CFR.

7.2. The chart below illustrates that the Council is not intending to borrow in advance of need, and that there is a significant level of "under borrowing".



7.3. The increase in gross debt shown during 2020/21 represents an upfront payment to Merseyside Pension Fund funded by borrowing. As mentioned in paragraph 3.6 (above) this will generate a significant saving to the Council whilst still maintaining the under borrowing position.

8. Prudential Indicators – Treasury Management

8.1. The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services. The annual Policy and Strategy Documents establish the following debt maturity profiles and an upper limit for investments made by the Council for more than 365 days:

8.2. Debt Maturity Profile

8.2.1. A debt maturity profile is detailed in the following tables i.e. the amount of borrowing that is maturing in each period as a percentage of total projected borrowing:

Debt Maturity	Upper Limit	Lower Limit
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	75%	0%
15 years and above	90%	25%

8.3. Principal Sums Invested for Periods Longer Than 365 Days

8.3.1. An upper limit on the value of principal sums invested for periods over 365 days (investments as approved in the annual Treasury Management Policy and Strategy Documents) is set as a percentage of total investments. This limit is set to contain the authority's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested.

Principal Sums Invested for Longer Than 365 Days				
	2020/21	2021/22	2022/23	2023/24
Upper Limit	40%	40%	35%	30%

8.3.2. This limit will be kept under review to take advantage of any opportunities in the current money market.

9. Monitoring Prudential Indicators

9.1. Having established the Prudential Indicators, the Executive Director for Corporate Resources and Customer Services will monitor them during the year and report on actual performance to the Audit & Governance Committee on a quarterly basis. An outturn report of performance against the Prudential Indicators will be presented to both Cabinet and Council following the financial year end.

Summary of Prudential Indicators

ANNEX A

Capital Expenditure - 2019/20 to 2023/24					
	2019/20 £m Actual	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
TOTAL	25.175	33.165	52.343	17.528	5.988

Financing Costs / Net Revenue Stream					
	2019/20 £m Actual	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
Ratio	3.7%	4.2%	3.8%	3.6%	3.2%

Capital Financing Requirement					
	31/03/20 £m Actual	31/03/21 £m Estimate	31/03/22 £m Estimate	31/03/23 £m Estimate	31/03/24 £m Estimate
CFR	230,300	232,137	240,055	237,198	233,795

Gross Debt and the Capital Financing Requirement					
	2019/20 £m Actual	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
CFR	230,300	232,137	240,055	237,198	233,795
Gross Debt	171,947	204,289	203,047	188,965	181,754
Under / (Over) Borrowing	58,353	27,848	37,009	48,233	52,041

Operational Boundary				
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	220.000	222.000	211.000	206.000
Other Long-Term Liabilities	9.000	8.000	7.000	6.000
TOTAL	229.000	230.000	218.000	212.000

Authorised Limit				
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	235.000	237.000	226.000	221.000
Other Long Term Liabilities	9.000	8.000	7.000	6.000
TOTAL	244.000	245.000	233.000	227.000

Debt Maturity

	Upper Limit	Lower Limit
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	75%	0%
15 years and above	90%	25%

Principal Sums Invested for Longer Than 365 Days				
	2020/21	2021/22	2022/23	2023/24
Upper Limit	40%	40%	35%	30%

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Report to:	Cabinet Council	**Date of Meeting:**	11 February 2021 4 March 2021
Subject:	Treasury Management Policy and Strategy 2021/22		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

This report sets out the following proposed policy and strategy documents:

a) Treasury Management Policy (Annex A)
b) Treasury Management Strategy (Annex B)
c) Minimum Revenue Provision Policy Statement (Annex C).

Recommendation(s):

Cabinet is recommended to:
1) Recommend to Council that the Treasury Management Policy Document for 2021/22 be agreed;
2) Recommend to Council that the Treasury Management Strategy Document for 2021/22 be agreed;
3) Recommend to Council that the Minimum Revenue Provision Policy Statement 2021/22 be agreed.

Council is recommended to:
1) Approve the Treasury Management Policy Document for 2021/22;
2) Approve the Treasury Management Strategy Document for 2021/22;
3) Approve the Minimum Revenue Provision Policy Statement 2021/22.

Reasons for the Recommendation(s):

The Council has adopted CIPFA's Code of Practice on Treasury Management in the Public Services. The Code requires that the Council sets a policy and strategy for the effective operation of the Council's Treasury Management function during the financial year. This will ensure that cash flow is adequately planned, surplus monies are invested commensurate with the Council's risk appetite whilst providing adequate portfolio liquidity, and that the borrowing needs of the Council are properly managed to ensure that the Council can meet its capital spending obligations.

Alternative Options Considered and Rejected:

None

What will it cost and how will it be financed?

(A) Revenue Costs

All financial implications arising from this report are contained within the Councils overall revenue budget

(B) Capital Costs

All financial implications arising from this report are contained within the Councils overall capital budget

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): The policy and strategy will allow for the Council's investment income and the financing costs for the Capital Programme to be managed within the budget for 2021/22.
Legal Implications: None.
Equality Implications: None.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities, minimising the cost of borrowing, the effective consideration / management of associated risks which continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a

Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD6278/21.) is the author of the report.

The Chief Legal and Democratic Officer (LD4479/21) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors, Arlingclose Ltd, have provided advice with regards to the Treasury Management Policy and Strategy.

Implementation Date for the Decision

Following the Call-In period for this committee.

Contact Officer:	Graham Hussey
Telephone Number:	0151 934 4100
Email Address:	Graham.Hussey@sefton.gov.uk

Appendices:

There are no appendices attached to this report.

Background Papers:

There are no background papers available for inspection.

Agenda Item 5

1. Background

1.1. The Council has adopted CIPFA's revised 2017 Code of Practice on Treasury Management in the Public Services which recommends the production of annual Treasury Management Policy and Strategy Documents.

1.2. In addition, the Council has adopted and incorporated into both documents:

a) The requirements of the 2017 Prudential Code for Capital Finance in Local Authorities; and

b) An Investment Strategy produced in line with the Ministry of Housing Communities and Local Government (MHCLG) Statutory Guidance on Local Government Investments 2018. This sets out the manner in which the Council will manage its investments, giving priority to the security and liquidity of those investments.

2. Treasury Management Policy and Strategy Documents

2.1. The Code requires the Council to produce:

a) A Treasury Management Policy Document – which outlines the broad policies, objectives and approach to risk management of its treasury management activities;

b) A Treasury Management Strategy Document – This sets out specific treasury activities which will be undertaken in compliance with the Policy in 2021/22; and

c) Suitable Treasury Management Practices, setting out the manner in which the organisation will seek to achieve these policies and objectives, prescribing how it will manage and control those activities.

The content of the Policy Statement and the Treasury Management Practices will follow the recommendations contained in sections 6 and 7 of the Treasury Management Code. The Treasury Management Practices will be amended to incorporate the changes to the 2017 Code pertaining to the management and reporting of non-treasury management investment activity. Any further amendment to reflect the particular circumstances of the Council will not result in the Council materially deviating from the Code's key principles.

2.2. The proposed Policy and Strategy Documents are attached at **Annex A and B** respectively.

2.3. In view of the complex nature of Treasury Management, update reports will be presented to the Audit and Governance Committee at each cycle and a mid-year report will also be presented to Cabinet and Council. An annual outturn report will also be presented to Audit and Governance Committee and both Cabinet and Council.

3. Financial Procedure Rules – Banking Arrangements

3.1. The Treasury Management Policy Document at **Annex A** delegates certain responsibilities to the Executive Director for Corporate Resources and Customer Services, including all executive decisions on borrowing, investment or financing, in line with the Constitution of the Council.

4. Minimum Revenue Provision (MRP) Policy Statement

4.1. Local Authorities have a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years and financed by borrowing.

4.2. Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146, as amended] require local authorities to make a prudent amount of minimum revenue provision (MRP).

4.3. The MRP regulations were revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]. These regulations were complimented by the publication of guidance on determining the “prudent” level of MRP, to which authorities are required to have regard. The 2008 regulations and associated guidance allowed local authorities more flexibility in calculating their MRP annual charge.

4.4. Authorities are required to prepare an annual statement of their MRP policy for submission to their full Council before the start of each financial year. The aim is to give elected Members the opportunity to scrutinise the proposed application of the MRP guidance.

4.5. Revised guidance was published in February 2012 and again in February 2018. Changes made in the 2018 Guidance have been set out in the MRP policy statement.

4.6. The proposed MRP Policy Statement is set out in **Annex C.**

ANNEX A

Corporate Resources

Treasury Management Policy

2021/22

Sefton Council

1. Treasury Management Policy

1.1. The Council defines Treasury Management as:

The management of the Authority's borrowing, 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.

1.2. The Council's Statement of Treasury Management Policy is:

a) Effective Treasury Management is acknowledged as providing support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving best value in Treasury Management, and to employing suitable performance measurement techniques, within the context of effective risk management.

b) The successful identification, monitoring and control of risk are regarded as the prime criteria by which the effectiveness of the Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation.

1.3. A dedicated team of three officers carries out the day-to-day treasury management activities. Two of the officers are qualified accountants, and one is a qualified accounting technician. The Service Manager – Treasury & Capital has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification CertITM-PF, which is aimed at giving a solid grounding in treasury management and which is tailored to the public sector.

1.4. Members should receive training in the Treasury Management function in order to assist in the understanding of this complex area. This will be addressed via the provision of regular reporting to Cabinet and the Audit and Governance Committee. Also, specific training and information on Treasury Management is available to all councillors on an annual basis. This is provided from the authority's external advisors.

2. Policy on the use of external service providers

2.1. Following the completion of a successful tender exercise in September 2020, the Council has engaged Arlingclose Ltd. as its treasury consultants from 1st October 2020 to 30th September 2023, with a further option of a one year extension.

2.2. The Council recognises that responsibility for treasury management decisions rests with the Council at all times. However, access to external treasury consultants provides access to specialist skills, knowledge, and advice. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly documented and subjected to regular review.

3. Treasury Management Strategy

3.1. The Annual Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Policy. The strategy for 2021/22 is attached at **Annex B**.

4. Delegated Powers

4.1. The Executive Director for Corporate Resources and Customer Services, under the Council's Constitution, is given the following authority:

a) All money in the hands of the Council shall be aggregated for the purposes of Treasury Management and shall be under the control of the Executive Director for Corporate Resources and Customer Services, the Officer designated for the purposes of Section 151 of the Local Government Act, 1972;

b) All executive decisions on borrowing, investment or financing shall be delegated to the Executive Director for Corporate Resources and Customer Services (or in his/her absence the Deputy Section 151 Officer) who shall be required to act in accordance with the Council's Treasury Policy, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

5. Reporting Requirements/Responsibilities

5.1. Cabinet and Council will:

a) Approve, prior to each financial year, the Treasury Management Policy and Strategy Documents;

b) Monitor these documents and approve any in-year amendments necessary to facilitate continued effective Treasury Management activity; and

c) Receive a mid-year report on Treasury Management activity during the financial year and an annual outturn report following each financial year.

5.2. Audit and Governance Committee will:

a) Monitor performance on at least a quarterly basis to ensure continued scrutiny of Treasury Management activity;

b) Receive an annual outturn report on Treasury Management activity following each financial year; and

c) Will be responsible for ensuring effective scrutiny of treasury management policies.

5.3. The Executive Director for Corporate Resources and Customer Services will:

a) Draft and submit to Cabinet and Council prior to each financial year, the Treasury Management Policy and Strategy Documents;

b) Implement and monitor these documents resubmitting any necessary in-year revisions/amendments (at least on a quarterly basis) to Cabinet and Council for approval;

c) Draft and submit a mid-year report during the financial year and an annual outturn report on Treasury Management activity to Cabinet and Council following each financial year-end;

d) Draft and submit an annual outturn report (and quarterly performance reports) on Treasury Management activity to the Audit & Governance Committee following each financial year-end;

e) Maintain suitable Treasury Management Practices (TMP), setting out the manner in which the Council will seek to achieve its objectives. The TMP's will also prescribe how the treasury activities will be managed and controlled;

f) Be responsible for the execution and administration of treasury management decisions; and

g) Act in accordance with the Council's Policy Statement and Treasury Management Practices, and also in accordance with CIPFA's Standard of Professional Practice on Treasury Management.

6. Borrowing and investments

6.1. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

6.2. The Council's primary objective in relation to investments remains the security and liquidity of capital. The yield earned on investments remains important but is a secondary consideration.

ANNEX B1

Corporate Resources

Treasury Management Strategy

2021/22

Sefton Council

1. Introduction

1.1. The Treasury Management Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Treasury Management Policy.

1.2. The Strategy has been produced to incorporate the requirements of the CIPFA Code of Practice on Treasury Management 2017 and the Prudential Code for Capital Finance 2017.

2. Treasury Management Strategy 2021/22

2.1. The Strategy for 2021/22 covers:

a) Treasury Limits in force which will limit the borrowing activity of the Council (2.2);
b) Prudential Indicators 2021/22 to 2023/24 (2.3);
c) Credit Risk (2.4);
d) Markets in Financial Instruments Directive (MIFID II) (2.5);
e) Interest Rates (2.6);
f) Exchange Rates (2.7);
g) Capital Borrowing (2.8 & 2.9);
h) Debt Rescheduling opportunities (2.10);
i) Municipal Bond Agency (2.11);
j) Borrowing in advance of need (2.122);
k) The Use of Financial Instruments for the Management of Risks (2.133);
l) Investment Strategy (2.144);
m) Ethical Investing (05);
n) The Climate Emergency (2.16):
o) Member and Officer Training (2.17).

2.2. Treasury Limits for 2021/22

The Treasury Limits set by Council in respect of its borrowing activities are:

Affordable Borrowing Limit	Maximum £245m

It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. The Affordable Borrowing Limit takes into account the Council's current debt, an assessment of external borrowing to fund the Capital Programme in 2021/22, the need to fund capital expenditure previously met from internal funding, and cash flow requirements.

Short-term Borrowing Limit	Maximum £30m

The Short–Term Borrowing limit takes into account an assessment of any potential short-term financing the Council may need (e.g. bank overdraft, short-term funding in anticipation of grant receipts). Short-Term Borrowing is defined as being for less than 12 months.

2.3. Prudential Indicators

The following prudential indicators are considered relevant by CIPFA for setting an integrated Treasury Management Strategy:

2.3.1. Debt Maturity Indicators

These indicators are designed to be a control over an authority having large concentrations of debt needing to be replaced at times of high interest rates. The control is based on the production of a debt maturity profile, which measures the amount of borrowing that will mature in each period as a percentage of total projected borrowing. Any borrowing decision and related maturity dates will be taken by the Council mindful of maturity profile limits set out below to ensure large concentrations of debt do not fall due for repayment in any one future financial year. The profile reflects borrowing advice provided by Arlingclose, the Council's Treasury Management Advisors.

Maturity Structure of Borrowing During 2021/22	**Upper Limit %**	**Lower Limit %**
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	75%	0%
15 years and above	90%	25%

The table above shows, for each maturity period, the minimum and maximum amount of debt that the Council can hold as a percentage of its total external debt. For example, when deciding to take out a loan that is due to mature within the next 24 months, the Council must ensure that this does not take the total amount of debt due to be repaid to more than 40% of all Council debt.

2.3.2. Principal sums invested for periods longer than 365 days

An upper limit on the value of principal sums invested for periods over 365 days is set as a percentage of total investments for that year. This limit is set to contain the Authority's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested.

The limits set for 2021/22 and the next two years are shown below:

Principal Sums Invested for Longer Than 365 Days			
	2021/22	2022/23	2023/24
Upper Limit	40%	35%	30%

2.4. Credit risk

All investments involve a degree of risk. In order to mitigate these risks, the Council will consider the credit ratings supplied by the three main credit rating agencies - Fitch, Moody's and Standard & Poor's as part of the process to determine the list of counterparties where the level of risk is acceptable. As part of this process advice from Arlingclose will be considered, both in terms of maximum duration and level of investment.

Sole reliance will not be placed on the use of this external service and the Council will also consider alternative assessments of credit strength, and information on corporate developments and of market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Background research in the financial press
- Discussion with our treasury consultants
- Internal discussion with the Executive Director for Corporate Resources and Customer Services.

The Council will only invest with institutions of high credit quality that meet the following criteria:

i. are UK based; and/or
ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-
iii. have a minimum long-term rating of A- (or equivalent).

A further explanation of credit ratings can be found at **Annex B3**.

The Council maintains a full record of each investment decision taken, each of which is authorised by an appropriate level of signatory.

2.5. MIFID II

2.5.1. From 3rd January 2018, the Financial Conduct Authority was obligated to treat all Local Authorities as "retail clients" under European Union legislation (MiFID II). The client status of the Local Authority relates to its knowledge and experience with regards to the use of regulated investment products and the decision-making processes it has in place for making such investments. The directive is focused on products such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds, including Money Market Funds.

2.5.2. The Council will opt up to "professional status" with its providers of financial services including advisers, banks, brokers and fund managers. Given the size and range of the Authority's treasury management activities, this represents the most appropriate status and will allow access to the above products as an investment option as they are not available to retail clients.

2.6. Interest Rates

2.6.1. Arlingclose provide regular forecasts of interest rates to assist decisions in respect of:

a) Capital Borrowings (2.8);
b) Debt Rescheduling opportunities (2.1010);
c) Temporary borrowing for cash flow; and
d) Investments strategy (2.144).

2.6.2. **Annex B2** gives details of Arlingclose's central view regarding interest rate forecasts.

2.6.3. Interest rate exposure is principally managed by monitoring interest rate risk. An internal view of the likely path of interest rates is formulated and this is considered along with the cash flow for the Council and any future requirements for potential borrowing such as to fund the Capital Programme. This then forms the basis of when to borrow, whether to borrow short or long term, and whether at fixed or variable rates. The maturity date for any loan is then set after a review of the Council's debt maturity profile to ensure a smooth maturity profile. Any plans for borrowing are discussed with our treasury consultants at regular strategy meetings to ensure the most advantageous position.

2.6.4. The current borrowing portfolio position is monitored via the borrowing charges incurred by the Council, which are monitored on a monthly basis.

2.6.5. The advice from Arlingclose takes into account financial activity both in the UK and world economies and the impact of major national and international events. It is essential that borrowing and investment decisions are taken mindful of independent forecasts as to interest rate movements. The Council will continue to take account of the advice of treasury management advisors.

2.7. Exchange Rate Risk Management

2.7.1. The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income and expenditure levels.

2.8. Capital Borrowing Strategy

2.8.1. The Authority's current debt portfolio is presented below:

Debt Portfolio	31/12/2020
Average Interest Rate	3.54%
Debt Outstanding – Fixed Rate	£m
PWLB	195.434
Other Long-Term Liabilities	9.055
Total Debt	**204.489**

2.8.2. Other long-term liabilities shown above represent transferred debt from the Merseyside Residuary Body (£2.407m) and finance lease liabilities (£6.648m).

2.8.3. The Council will raise its required finance, following advice from treasury management advisors, from the following sources:

- HM Treasury's PWLB lending facility
- An institution approved for investments (see 2.14 below)
- Banks or building societies authorised to operate in the UK
- UK public sector bodies
- UK public and private sector pension funds (with the exception of Merseyside Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

2.8.4. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback.

2.8.5. The Council's forecast borrowing requirement for 2021/22 is as follows:

Borrowing Requirement	Estimate £m
New Borrowing	15.102
Replacement Borrowing	2.644
Total Borrowing	**17.746**

2.8.6. The new borrowing represents the unsupported borrowing as required by the Capital Programme in 2021/22 and replacement borrowing for existing loans that will mature in year. As further explained in 2.8.9. (below), the Council is internally borrowed and may also take additional borrowing if required, in order to reverse this position.

2.8.7. The Arlingclose forecast for interest rates is set out at **Annex B1**. This would suggest that the following strategy is followed:

i. The cheapest borrowing will be internal borrowing, which involves reducing cash balances and foregoing interest earned at the current historically low rates. Consideration will always be given to long term borrowing rates and the possibility of rates rising, which could mean borrowing at future higher rates which could erode the advantages of internal borrowing

ii. Temporary borrowing from money markets or other local authorities.

2.8.8. The authority borrows from the PWLB in order to fund part of the Capital Programme, the maximum that the Council can borrow being the Capital Financing Requirement (CFR) which measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

2.8.9. PWLB borrowing as at 31st December 2020, plus other long-term liabilities, is £204m, as against an estimated CFR of £232m for 2020/21. This means that the council is in a position to borrow a further £28m which would take the current borrowing level to the level of the CFR. This strategy is described as being internally borrowed which does have the advantage of reducing exposure to interest rate and credit risk. To be internally borrowed is a conscious decision to use cash balances to fund capital expenditure, rather than borrow from the PWLB. This position can be reversed at any time by borrowing from the PWLB, or any other appropriate organisation.

2.8.10. As the Bank of England and the UK Government continue to react to the ongoing Coronavirus pandemic, 2021/22 is expected to experience a continuation of a relatively low base rate, and further cuts to zero or negative rates cannot be ruled out. Hence, internal borrowing is a sensible option where interest rates on deposits are much lower than the current PWLB borrowing rates, but this will be reviewed should interest rates change significantly.

2.8.11. However, as noted in 2.8.7. (above), savings have to be weighed against the potential for incurring long term extra costs by delaying unavoidable new borrowing until later years when PWLB rates are forecast to be higher. This issue will be left under review and discussions with treasury management advisors will be ongoing to ascertain the optimum time for undertaking future borrowing.

2.8.12. Against this background, caution will be adopted in undertaking borrowing in 2021/22. The Executive Director for Corporate Resources and Customer Services will monitor the interest rate market and following advice from Arlingclose, adopt a pragmatic approach to changing circumstances during the year.

2.9. Recent Changes to Public Works Loans Board Rates

2.9.1. The PWLB offers its local authority borrowing facility at a fixed rate above the Government's cost of borrowing and this has historically been the most efficient manner of borrowing for councils.

2.9.2. On 9th October 2019 the Government increased this margin by 1% in a response to the substantial increase in PWLB loans taken out by local authorities caused by historically low interest rate levels. At the same time, to reflect this demand the cap on such lending by the PWLB was increased from £85bn to £95bn.

2.9.3. A HM Treasury consultation on lowering PWLB rates has subsequently been concluded in July 2020 and in response, the 1% margin has been removed from 26th November 2020. The PWLB will not however, lend to any authority that plans to buy investment assets primarily for yield anywhere in their capital plans.

2.9.4. The revised borrowing rates will therefore be used when assessing the cost, viability and affordability of capital schemes when those schemes are being financed from borrowing. The authority will also consider a wider evaluation of funding options from other sources as identified in paragraph 2.8.3 (above).

2.9.5. The authority may also consider arranging forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

2.10. Debt Rescheduling Opportunities

2.10.1. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

2.10.2. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring in recent years. The situation will be monitored however, and the Council as in previous years will consider the option of debt restructuring all or part of the debt portfolio during 2021/22, should the financial circumstances allow, for example, by using capital receipts from asset disposals to repay debt.

2.11. Use of the UK Municipal Bond Agency

2.11.1. The UK Municipal Bonds Agency (MBA) was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities.

2.11.2. The MBA will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be subject to specialist external advice and a separate report will be brought to Cabinet and full Council.

2.12. Borrowing in advance of need

2.12.1. The Council will not borrow more than, or in advance of, its needs purely to profit from the investment income made on the extra sums borrowed. Any decision to borrow in advance of need will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

2.12.2. In determining whether to borrow in advance of need the Council will: -

- Ensure that there is a direct link between the Capital Programme and maturity profile of the existing debt portfolio which supports the need to borrow in advance of need;
- Ensure that the revenue implications of such borrowing have been considered in respect of future plans and budgets; and
- Consider the merits of other forms of funding.

2.12.3. The total amount borrowed will not exceed the authorised borrowing limit of £245m. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link loans with particular items of expenditure.

2.13. The Use of Financial Instruments for the Management of Risks

2.13.1. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. Lender Option Borrower Option (LOBO) loans – typically a very long-term loan (40-70 years) and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires councils to clearly detail their policy on the use of derivatives in the annual strategy.

2.13.2. The Council's policy on such items is that it will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

2.13.3. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

2.13.4. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use. At the present time, no such arrangements are in place.

2.14. Investment Strategy

2.14.1. The Council manages the investment of its surplus funds internally and operates in accordance with the Statutory Guidance on Local Government Investments issued by MHCLG, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 and the CIPFA Treasury Management in Public Services Guidance Notes 2018 for Local Authorities. Surplus funds are invested on a daily basis ensuring security, followed by portfolio liquidity.

2.14.2. The Council's investment priorities are, in order of priority:

1. The security of capital
2. The liquidity of capital
3. Yield that can be generated.

2.14.3. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security of principal sums invested and portfolio liquidity, whilst ensuring that robust due diligence procedures cover all external investments.

2.14.4. The Council's investment portfolio as at 31st December 2020 is set out below:

Investments Portfolio	**£m**
Bank Deposits & Money Market Funds	79.720
Property Fund	5.000
Total	84.720

2.14.5. The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the maximum limits shown:

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	Unlimited
Local authorities & other government entities	25 years	£15m	Unlimited
Secured investments	25 years	£15m	Unlimited
Banks (unsecured)	12 months	£10m	Unlimited
Building societies (unsecured)	12 months	£10m	£15m
Registered providers (unsecured)	5 years	£10m	£15m
Money market funds	n/a	£15m	Unlimited
Strategic pooled funds e.g. Property Funds	n/a	£10m	£15m
Other investments	5 years	£5m	£10m

2.14.6. The risk of exposure to an individual counterparty as a proportion of the Council's total investment portfolio will also be considered so that access to cash is maintained in the event of operational difficulties at any one provider. Operational limits expressed as a percentage of total investments held, may therefore be used for investments in addition to the above maximum limits and will be applied to counterparties that are lent to in the short term or for daily liquidity. The following table outlines the operational limits that will be applied:

Sector	**Counterparty limit**
Local authorities & other government entities	10%
Banks (unsecured)	5%
Building societies (unsecured)	5%
Money market funds	10%

2.14.7. Advice from our Treasury Management Advisors will also be considered in determining whether shorter maximum investment periods or operational limits for the amount invested is more appropriate during the year.

2.14.8. The Council banks with National Westminster Bank, which is part of the Royal Bank of Scotland Group. It is currently a part government-owned institution. At the present time, it meets the minimum credit criteria of A- (or equivalent) long term. There may be occasions however, when the bank's rating may temporarily fall below these minimum criteria to a BBB rating. The Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) to ensure business continuity when no other options are available.

2.14.9. The current list of countries approved for investment is shown below; this takes account of the most up-to-date credit ratings available in respect of the countries named. It should be noted that a maximum limit of £10m will be applied when investing in any one country outside of the UK. The investment counterparties within each country will also be subject to the limits identified above and will be monitored to ensure they continue to meet the requirements for high credit quality. In the event of a change in credit rating or outlook, the Council, with advice from treasury management advisors, will evaluate its significance and determine whether to include (subject to Council approval) or remove a country from the approval list:

Rating	Country
AAA	• Australia • Denmark • Germany • Netherlands • Norway • Singapore • Sweden • Switzerland • USA
AA+	• Austria • Canada • Finland
AA	• France
AA-	• United Kingdom

2.14.10. The Bank of England Base Rate has remained low at 0.10%. Arlingclose's projection is for this to remain unchanged until the end of 2023 (**Annex B1**). The COVID-19 pandemic however, has increased the risk that the Bank of England may set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

2.14.11. In order to pursue the strategy of maximising returns from surplus funds at an acceptable level of security and portfolio liquidity, the following Brokers will be utilised for investments of over one month:

ii) BGC Brokers LP;
iii) Tradition UK Limited;
iv) Tullet Prebon Limited.

There are 3 brokers within this list, however as with previous years, this is to provide maximum protection to the council. It is unlikely that these institutions will all be utilised during the financial year.

2.14.12. It is not proposed to make any investments in 2021/22 that do not comply with the above strategy, however, should the situation change, the Executive Director for Corporate Resources and Customer Services will report to Cabinet requesting appropriate approval to amend the strategy before any such investments are made.

2.14.13. If any of the Council's investments appear at risk of loss due to default (i.e. this is a credit related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make an assessment of whether a revenue provision of an appropriate amount is required.

2.14.14. Performance monitoring will be reported to the Audit and Governance Committee on a quarterly basis, with mid-year reports and outturn reports also presented to Cabinet and Council.

2.15. Ethical Investment Principles

2.15.1. Where the Council deposits surplus balances overnight or for a short-term, investments will be made with financial institutions in a responsible manner (aligned to the overarching core principles/Councils core values) where possible and in accordance with advice from its Treasury Management Advisor. In the event that the Council has surplus balances that it can invest for the longer term (e.g. terms over 1 year) it will exclude direct investment in financial products that do not contribute positively to society and the environment. This will include the principle that investment in specific financial products whose performance is driven by off-shore trading, financial malpractice, debt swops, short selling, the arms trade and tobacco industry will be avoided. The same rigorous criteria will be used to assess whether investment in certain countries will be contrary to Sefton's core values.

2.15.2. It is recommended that the Executive Director for Corporate Resources and Customer Services, assess whether investment in certain countries will be contrary to Sefton's core values, give consideration to the exclusion of those countries on the EU list of non-cooperative tax jurisdictions (the black list and grey list), which aims to tackle external risks of tax abuse and unfair tax competition, within the Council's Treasury Management Strategy.

2.16. The Climate Emergency

2.16.1. At Full Council in July 2019 a climate emergency was declared by the Council. One of the aspects within this motion was that the Council should review the impact that some of its strategies including its Treasury Management Strategy could have on the successful delivery of the motion.

2.16.2. In recent years, the Council has seen its level of reserves and balances reduce and as a result where in previous years, it would have invested these surplus resources in longer term financial instruments or investment funds that may have had an impact on the Council's motion, it now deposits these lower value residual funds overnight with either banks or money market funds.

2.16.3. As a result of this, at this stage it is not considered that the Council's investment activity needs to be taken into account when considering its response to the climate emergency. In the event that the council has more surplus balances available during the year that may lead to longer term investing, the council will take full account of the climate emergency when discussing the options available with the Treasury Management Advisors.

2.17. Member and Officer training

2.17.1. CIPFA's Code of Practice requires the Executive Director for Corporate Resources and Customer Services to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

2.17.2. In order to address this, the Service Manager – Treasury & Capital has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification CertITM-PF, which is aimed at giving a solid grounding in treasury management and which is tailored to the public sector. Training will be provided for Members of the Audit & Governance Committee in December 2021 and it is intended for such training to occur at least annually.

ANNEX B1

INTEREST RATE FORECAST

Arlingclose Interest Rate Forecast as at December 2020

The Council has appointed Arlingclose as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view:

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

ANNEX B2

Arlingclose Economic and Interest Rate Forecast (Commentary)

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

ANNEX B3

CREDIT RATING EXPLANATION

The following is an explanation of the ratings applied by Fitch.

Short term rating
This places greater emphasis on the liquidity necessary to meet financial commitments.

F1 highest credit quality (+ denotes exceptionally strong)
F2 good credit quality
F3 fair credit quality.

Long term rating

AAA highest credit quality – lowest expectation of credit risk and exceptionally strong capacity to pay financial commitments
AA very high credit quality – very low credit risk and very strong capacity to pay financial commitments
A high credit quality – low credit risk and considered to have strong capacity to pay financial commitments, but may be vulnerable.

Viability rating
This assesses how a bank would be viewed if it were entirely independent and could not rely on external support.

aaa highest fundamental credit quality
aa very high fundamental credit quality
a high fundamental credit quality
bbb good fundamental credit quality
bb speculative fundamental credit quality
b highly speculative fundamental credit quality
ccc substantial fundamental risk
cc very high levels of fundamental credit risk
c exceptionally high levels of fundamental credit risk
f failed.

Support rating
Judgement of a potential supporter’s (either sovereign state of parent) propensity to support the bank and its ability to support it.

1 extremely high probability of external support
2 extremely high probability of external support
3 moderate probability
4 limited probability
5 cannot rely on support.

ANNEX C

Corporate Resources

Minimum Revenue Provision Policy Statement

2021/22

1. Background

1.1. Local Authorities have a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years and financed by borrowing.

1.2. Previously the Council was required to follow a prescriptive MRP calculation as set out in former regulations 27, 28 and 29 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 2003/3146, as amended]. This system was revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].

1.3. As part of those regulations the Government issued guidance recommending local authorities to prepare an annual statement of its strategic policy on the MRP, to be approved by the full council. The guidance requires each authority to determine its own MRP within the given framework and that the amount of MRP charged is a prudent amount.

1.4. The broad aim of a prudent amount is to ensure that the debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure provides benefit, or, in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of that grant.

2. Strategic Options

2.1. The Council is free to determine its own method for calculating a prudent provision, but the guidance includes four options for calculating MRP. The Council can choose from or use a combination of the available options. The options are as follows:

Option 1 – Regulatory Method

2.2. This provides for local authorities to continue to calculate MRP in line with the minimum existing statutory charge of 4% of outstanding debt related to supported borrowing only, less an adjustment that ensures consistency with previous capital regulatory regimes no longer in force. This option is available for all capital expenditure incurred prior to 1 April 2008.

Option 2 – Capital Financing Requirement Method

2.3. This is very like the regulatory method but it does not take account of the adjustment that ensures authorities do not pay more MRP than under the previous capital regulatory regimes. For most authorities, this method may not be appropriate as it would result in a higher level of provision than option 1.

Option 3 – Asset Life Method

2.4. This method is appropriate for calculating MRP in relation to debt incurred as unsupported borrowing (also known as prudential borrowing), and must be used for revenue expenditure capitalised by direction or regulation (such as that for equal pay). Under this option there are two methods available:

i. **Equal instalment method.** This generates a series of equal annual amounts over the life of each asset that is financed by borrowing, with the life determined upon acquisition. This means that the charge to revenue closely matches the period of economic benefit of the asset.

ii. **Annuity method**. This method links the MRP to the flow of benefits from an asset where the benefit is expected to increase in later years.

2.5. Under this option authorities should consider the type of assets that they finance through prudential borrowing, as the type of asset may have a significant impact on the level of MRP and the method used to calculate the MRP.

Finance Leases and PFI

2.6. The guidance indicates that for finance leases and on balance sheet PFI contracts, the MRP requirement is met by making a charge equal to the element of the finance lease rental that goes to write down the balance sheet liability under proper accounting practices. This is in effect a modified version of the annuity method of Option 3.

Option 4 – Depreciation Method

2.7. This method is appropriate for calculating MRP in relation to debt incurred as unsupported (prudential) borrowing. Under this method, MRP is equal to the amount of depreciation charged on assets funded from unsupported borrowing. This method may cause volatility in the annual charge for MRP because assets are revalued on a periodic basis, giving rise to significant changes in the amount of depreciation charged. Given this potential adverse impact on future budgets this option is not considered viable.

Use of Capital Receipts

2.8. In addition to the four options listed above, the Local Authorities (Capital Finance and Accounting) Regulations 2003 [SI 2003/3146] allow local authorities to use capital receipts to meet “any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account”.

2.9. For both finance leases and PFI contracts, proper accounting practices require that the element of the annual rental relating to the repayment of the liability is used to write down that liability on the balance sheet and is not charged to revenue. It therefore follows that local authorities are permitted to apply capital receipts to fund the principal element of the annual rental of a finance lease or on balance sheet PFI contract.

3. MRP Statutory Guidance (February 2018)

3.1. In February 2018, the Government issued revised statutory guidance on the minimum revenue provision.

3.2. The key changes to the guidance included:

- The definition of ‘Prudent Provision’ used in the guidance was updated so that the broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR.

- Where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its Statement, why the change will better allow it to make prudent provision.

- The calculation of MRP under the new method(s) should be based on the residual Capital Financing Requirement (CFR) at the point the change in method is made (i.e. it should not be applied retrospectively). Changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years, and should not result in a local authority making a reduced charge or a charge of £nil for the accounting period in which the change is made, or in any subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years.

- A charge to a revenue account for MRP cannot be a negative charge.

- If a local authority chooses to offset a previous year’s overpayment, they should disclose this fact and any remaining cumulative overpayment of MRP in the Statement presented to full council.

- Where a local authority uses MRP options 3 or 4 or where it uses another methodology that has the useful life of assets as a component to the calculation, it should normally not exceed a maximum useful life of 50 years. Local authorities can exceed this maximum in two scenarios:

  i. where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years it can use the life suggested by its professional advisor; and

  ii. for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years. In this case the length of the lease/PFI contract should be used.

4. MRP Policy for 2021/22

4.1. The recommended MRP policy is summarised below:

Category	Basis of MRP Calculation
Supported borrowing	Annuity Basis - Calculated over 50 years (commencing from 1 April 2015)
Unsupported (prudential) borrowing	Annuity Basis - Calculated using (Option 3) the estimated life method

PFI and Leasing Arrangements	Basis of MRP Calculation
On balance sheet PFI contracts	MRP charge to be equal to the principal element of the annual rental
On balance sheet leasing arrangements (finance leases)	MRP charge to be equal to the principal element of the annual rental

4.2. Standard asset lives to be applied to calculate the MRP charge for unsupported (prudential) borrowing:

Intangibles (Software)	3 Years
Vehicles, Plant & Equipment	5 to 10 Years
Revenue Expenditure Funded for Capital Under Statute – Capitalised Redundancy Costs	20 Years
Revenue Expenditure Funded for Capital Under Statute - Other	25 Years
Community Assets (Parks, Gardens etc.)	25 Years
Land	50 Years
Buildings – Scheme Value under £250,000	25 Years
Buildings – New Build (Value over £249,999)	Building Life per Asset Register *
Buildings – Acquisitions (Value over £249,999)	
Buildings – Refurbishment / Remodelling (Value over £249,999)	30 Years
Buildings – New Strand Shopping Centre	25 Years
Infrastructure - Capitalised Highways Maintenance	10 Years
Infrastructure - Other	40 Years

* The building life used in the MRP calculation will be subject to a maximum of 50 years.

4.3. The Executive Director for Corporate Resources and Customer Services will retain discretion to use alternative lives for assets (capital schemes) that have characteristics that mean using the standard life would not be considered appropriate. It is anticipated that this will only apply in very limited circumstances.

4.4. Assets acquired with the intention of onward sale which will not be used in the delivery of services will not generally attract MRP as in these events the capital receipts generated by the loan and sale will be set aside to repay debt.

4.5. Loans made to third parties to enable them to incur capital expenditure are repaid by the borrower and so MRP provision does not need to be made by the Council from Council Tax.

4.6. Commencement of MRP Charges

Provision for debt under Option 3 (Asset Life Method) will normally commence in the financial year following the one in which the expenditure is incurred. However, the MRP guidance highlights an important exception to this rule. In the case of the provision of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This delay would be perhaps 2 or 3 years in the case of major projects, or possibly longer for some complex infrastructure schemes.

4.7. Use of Capital Receipts to Reduce MRP Charges

Any proposal to use capital receipts to reduce future MRP charges will be presented to Cabinet for approval prior to the application of the capital receipts.

Report to:	Cabinet Council	**Date of Meeting:**	11 February 2021 4 March 2021
Subject:	Capital Strategy 2021/22 to 2025/26		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are made and considers the impact of these decisions on the priorities within the Council's Core Purpose and Framework for Change Programme and the promises made in the 2030 Vision for Sefton.

At the heart of the Capital Strategy is the Council's core objective to continue deliver financial sustainability. As such a flexible capital investment programme is more important than ever as a method to stimulate and enable economic growth and strategic investment, ensuring best use of existing assets and of generating future income streams to pay for and deliver day to day services.

Recommendation(s):

<u>Cabinet is asked to:</u>

Recommend that Council approve the Capital Strategy as set out in Annex A.

<u>Council is recommended to:</u>

Approve the Capital Strategy as set out in Annex A.

Reasons for the Recommendation(s):

The Capital Strategy is a key policy document for Sefton Council and follows guidance issued in the Prudential Code for Capital Finance in Local Authorities (2017 Edition).

Alternative Options Considered and Rejected: (including any Risk Implications)

None

What will it cost and how will it be financed?

(A) Revenue Costs
N/A

(B) Capital Costs
N/A

Implications of the Proposals:

The following implications of this proposal have been considered and where there are specific implications, these are set out as follows:

Resource Implications (Financial, IT, Staffing and Assets): The Capital Strategy outlines the governance and framework for future capital investment decisions. Proposals may have an impact on physical assets and/or ongoing revenue income and expenditure, and this will be assessed during the approval process.
Legal Implications: The Council's decision-making processes resulting in the implementation of any capital programme must be transparent.
Equality Implications: N/A

Contribution to the Council's Core Purpose:

Protect the most vulnerable: The Capital Strategy will enable the Council to continue to seek to protect the most vulnerable within available resources.
Facilitate confident and resilient communities: The Capital Strategy demonstrates a clear commitment to early intervention and prevention and working with partners, communities and local businesses to reduce the reliance on the public sector.
Commission, broker and provide core services: The Capital Strategy recognises that where it is necessary to do so, the Council will continue to be a provider of those core services that the community expects to see delivered but will use new service delivery models and new forms of partnership.
Place – leadership and influencer: The Capital Strategy will see the Council continue to demonstrate strong and effective leadership building on its proven track record of engagement, consultation, listening and considering feedback in the decision-making process.

The Council continues to work with partners towards common goals, moving away from traditional ways of working focused around delivering services and is demonstrating a greater role in influencing, shaping, enabling and building community capacity.
Drivers of change and reform: The Capital Strategy demonstrates the Council is playing a key role in leading and driving change and reform to improve outcomes for Sefton residents and continuously improve the Borough.
Facilitate sustainable economic prosperity: The Capital Strategy clearly articulates the Council's approach to investing in order to achieve financial sustainability and the ambitions of Sefton 2030.
Greater income for social investment: The Capital Strategy recognises the Council's commitment to developing a commercial nature, looking at what it can do either by itself or with others to generate income and profit that can be reinvested into delivering social purpose.
Cleaner Greener: The Capital Strategy recognises the Council's commitment to work with others to maintain Sefton's natural beauty and ensure that its many assets provide a contribution to Sefton's economy, people's wellbeing and the achievement of the 2030 Vision.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD6284/21) is the author of the report.

The Chief Legal and Democratic Officer (LD4485/21) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

1st April 2021

Contact Officer:	Stephan Van Arendsen
Email Address:	Stephan.VanArendsen@sefton.gov.uk

Appendices:
Appendix 1 – Capital Programme 2021/22 to 2022/23.

Background Papers:

Agenda Item 6

There are no background papers available for inspection.

1. Introduction

1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition) requires all Local Authorities to adopt a Capital Strategy. It is mandatory for all authorities to have this approved and in place and have it considered alongside the Council's other key budget reports such as the Treasury Management Strategy.

2. Content

2.1 The content of the capital strategy is defined; however, it is recognised that individual authorities final document will reflect its own individual circumstances. As such the document aims to provide information on how the capital programme and future decisions will be made and what considerations will be taken into account in the management of the programme.

2.2 The key areas that will be included in the capital strategy are:

- governance and prioritisation
- capital expenditure and resources
- asset management and strategy
- commercial investment
- debt, borrowing and treasury management
- risk management
- knowledge and skills.

A summary of the council's current capital programme is also included (Appendix 1), and this will be updated as future capital decisions are made.

ANNEX A

Capital Strategy

2021/22 to 2025/26

Sefton Council

1. Background

1.1 The Capital Strategy is a key policy document for Sefton and follows guidance issued in the Prudential Code for Capital Finance in Local Authorities (2017 Edition), and it was first presented in 2019/20. It is an overarching document which sets the policy framework and governance for the development, management and monitoring of capital investment and the use of capital resources. The strategy reflects the Council's Vision for 2030, Core Purpose, and sets out how capital expenditure will play a significant role in its delivery through the Framework for Change and Growth Programme. The Capital Strategy is aligned to the Treasury Management Strategy, Medium Term Financial Plan (MTFP), Asset Management Strategy and the Disposal Policy and all other approved policies and frameworks.

1.2 During 2016 Sefton Council led on developing a new and exciting vision for the future of the Borough. The Imagine Sefton 2030 consultation engaged with thousands of people, local businesses and potential investors to create a vision that collectively promotes shared prosperity, coordinated public investment and a healthy environment and population. On the back of this work the Vision 2030 was agreed in November 2016, together with the Vision Outcomes Framework and the Council's Core Purpose.

1.3 The Council's major change programme - the Framework for Change - is the way in which the Council will deliver the 2030 Vision whilst maintaining its commitment to financial sustainability.

1.4 There are three pillars that underpin the programme, and which will help the Council deliver against its stated objectives. These are:

- Economic Growth and Strategic Investment – physical regeneration and enabling infrastructure for our economic growth priorities and supporting investment opportunities the Council may wish to directly sponsor or support in an enabling or commissioning role where there is a sound commercial and financial justification/reason to do so.

- Public Sector Reform (Council of 2023) – this will further enable the Council to define what it will do and how (within the budget available); what outcomes are expected, how these will be measured, what resources will be allocated and where it will focus its influence.

- Public Sector Reform (Demand Management) – demand led budgets across the Council (for example Adult Social Care and Children's Social Care) must due to the size, complexity and demand for these services, undergo continual review to ensure that the cost base for these services reduces, an early intervention and prevention programme is embedded, and residents are supported in 'moving down the system' so as to reduce the demand for Council services and particularly those at the acute end.

1.5 One of the fundamental requirements and drivers to maintain and continually update the Council's Capital Strategy is the greater emphasis on locally generated income (e.g. Council Tax and Business Rates) to support local government funding. The reliance on this income to support the delivery of frontline services means that it is important that the Council, working with its partners, optimises the opportunity. As a result, development of economic growth is important in ensuring that financial sustainability for the Council is achieved, and the ambitions as set out in Vision 2030 are met. This is particularly relevant and important as a result of the global pandemic and the impact on residents, communities and businesses.

1.6 The Capital Strategy also recognises that regeneration is a priority and that where it is appropriate to do so the Council can acquire strategic property for regeneration purposes where business cases provide a satisfactory payback period / profile.

1.7 The Strategy is brought forward in the recognition that Cabinet has approved and published a number of Town Centre Investment Frameworks and other policies and that should the opportunity present itself the Council might be the investor, subject to consideration of a robust business case by Cabinet.

1.8 The Capital Strategy will be the framework from which capital expenditure and investment decisions in Sefton are made to enable the Framework for Change to have the desired impact. The decision-making process will consider stewardship, value for money, prudence, sustainability and (long-term) affordability. The Capital Strategy contains:

- An overview of the governance process for prioritisation, approval and monitoring of capital expenditure;
- A longer-term view of capital expenditure plans;
- An overview of asset management planning;
- The authority's approach to commercial activities including due diligence and risk appetite;
- Expectations around debt and use of borrowing to support capital expenditure;
- The knowledge and skills in the authority in relation to capital investment activities.

2. Capital Programme Governance and Prioritisation

2.1 All capital programme expenditure will be governed through the Capital Strategy framework. Individual programmes and projects will commonly fall into three main categories:

- Capital maintenance and improvement – to sustain the condition of existing assets and/or to avoid the short, medium and long-term revenue costs of "do nothing".
- Capital Investment for financial return – i.e. for commercial purposes to deliver an ongoing revenue return.
- Capital Investment for non-financial return – investment in an asset of strategic importance linked to the 2030 Vision and Council's Core Purpose.

2.2 This categorisation will help to determine, for officers and members, the route that a project proposal must follow in order to gain approval into the capital programme. It will clarify the governance pathway and the degree of due diligence required before approval to spend is granted.

2.3 A robust planning and prioritisation process has been designed with clear approval stages at which risk, reward, value for money and alignment to the Council's priorities is tested.

2.4 The Capital Strategy proposes a governance structure that enables the effective management of whole capital programme. New capital schemes will typically take one of two routes to approval for inclusion in the capital programme.

A. For recurrent capital schemes funded 100% from external resources the Finance Procedure Rules state:
   - Schemes up to £100k can be approved by the Section 151 Officer and Chief Executive;
   - £100k - £250k the S151 Officer and Cabinet Member – Regulatory, Compliance and Corporate Services;
   - £250k - £1m Cabinet;
   - £1m+ Cabinet and Council.

B. Projects that require the use of council resources and meet strategic objectives will follow internal governance arrangements before submission to Cabinet and where appropriate Council for approval as set out in the Council's Financial Procedure Rules.

2.5 The Council will approve this strategy and in accordance with the Council's constitution and legislation, Cabinet will make decisions to implement the strategy.

2.6 Financial management and performance of the Council's approved and published Capital Programme is reported to Cabinet and Overview and Scrutiny Committee with an Annual Report being produced at the end of each financial year.

2.7 The draft and indicative Capital Programme is summarised in Appendix 1 and this will be continually updated as part of each budget cycle and taking into account any decisions made in the year.

3. Capital Expenditure and Resources

3.1 Capital Expenditure must be incurred in line with the Financial Procedure Rules. The Executive Director of Corporate Resources and Customer Services (Section 151 Officer) is responsible for ensuring that a capital programme is prepared on an annual basis for consideration by Cabinet before submission to Council for approval alongside the annual revenue budget.

3.2 Capital resources are held corporately and are allocated according to the priorities outlined in section 2. The Council will seek to maximise the use of external grants and contributions; and to consider joint funding initiatives with partners if the benefits of doing so align with Council priorities.

3.3 Capital expenditure is typically funded from:

- Government Grants
- Section 106
- External Contributions
- Prudential Borrowing
- Capital Receipts

Prudential Borrowing

3.4 Local authorities are able to borrow to invest in capital works and assets provided that the cost of that borrowing is affordable/repayable and in line with principles set out in the Chartered Institute of Public Finance and Accountings (CIPFA) Prudential Code Guidelines.

http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capitalfinance-in-local-authorities-2011-edition-book

3.5 Each year the Council approves a Treasury Management Strategy and a range of prudential indicators that reflect its compliance with the CIPFA guidance and the approach to capital expenditure and borrowing for the forthcoming year. As such, projects that are identified and which support the Council's corporate objectives (including financial sustainability) may utilise prudential borrowing once they have been formally reviewed and subject to robust business case scrutiny. Within such cases a full financial appraisal will be required to ensure that all revenue implications of the cost of borrowing are considered.

3.6 Any capital expenditure funded from prudential borrowing will have a future impact on the revenue budget as the Council is required to set aside a minimum revenue provision (MRP) to repay the principal and interest, i.e. the debt, over the life of the asset.

3.7 The financing of the capital programme will be delegated to and determined by the Executive Director of Corporate Resources and Customer Services (Section 151 Officer). Consideration will be given to the long-term impact of capital expenditure and any ongoing revenue implications. The capital financing charges and any additional running costs arising from capital decisions are incorporated within the annual Budget and Medium-Term Financial Plan. This enables members to consider the consequences of capital spend alongside other competing priorities for revenue funding.

3.8 Capital expenditure decision making is not only about ensuring that the initial allocation of capital funding meets corporate and service priorities but also that the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in all capital expenditure appraisal decisions.

3.9 The Prudential Code was introduced as part of the Local Government Act 2003. It details several measures/parameters known as prudential indicators that are set each year. When setting these indicators, the Prudential Code requires the Council to have regard to service objectives, affordability, prudence and sustainability. The Prudential Indicators Report is approved as part of the annual budget setting process and is also presented for monitoring purposes to the Audit and Governance Committee on a quarterly basis.

3.10 The indicators are based upon capital programme expenditure and its funding requirements and ensure that the budgeted capital expenditure limit is monitored, along with the level of the Capital Financing Requirement which represents the Council's underlying need to borrow for the capital programme. Maximum borrowing limits are set for the Council, the affordability of which is assessed against total income from Government grants, Council Tax and Business Rate payers.

4. Asset Management Strategy

4.1 A core part of the Council's capital programme is informed by the Asset Management Strategy. The schedule of capital improvement works required to support the Council's operational property portfolio is derived from this strategy. The Asset Management Strategy sits alongside the Asset Disposal Policy.

4.2 The main objectives of capital expenditure on operational assets is to ensure that they meet health and safety standards, are fit for purpose in terms of statutory guidance and legislation, as well as helping the Council to reduce costs from unnecessary revenue expenditure on poorly maintained and/or redundant stock. A key objective of the capital strategy is that it links with the Asset Management Strategy to protect current buildings and long-term assets to avoid incurring significant future costs.

4.3 The asset management capital expenditure decision making process must consider the Council's Asset Disposal Policy. A regular review of Council owned assets will identify whether assets should be held for operational or heritage purposes, should form part of the Council's future investment and capital programme or should be disposed of.

4.4 The Asset Management Strategy and Asset Disposal Policy are key documents to inform all long-term capital and revenue implications. These documents are reviewed on an annual basis and a review has taken place this year.

4.5 A structured approach to any disposal and the likely capital receipt will mean that medium and long-term resourcing estimates can be made and aligned to future investment decisions.

5. Commercial Investment

5.1 As reliance on Government funding reduces, the importance of local income generation increases, and this is a key stated central government objective for local government and one which reflects their future model for how local government will be funded. As a result, the Council has had to develop its commercial mindset in order to continue to support the achievement key service priorities, a balanced budget, and at the same time, safely finance the Framework for Change Programme.

5.2 A commercial approach will lead to more commercial activities being developed, assessed and delivered and means that processes and financial controls, regarding material capital investment, need to be robust. Due diligence and ongoing budget management will be effective and proportional to the level of investment and risk. It is also critical that such options are considered not in isolation on a project by project basis, but across the whole portfolio of projects in order that the risk profile for all activity is understood as part of the Council's requirement to deliver financial sustainability.

5.3 The governance structure for all capital investment and expenditure decisions, explained in section 2, contains additional gateway processes which allow further scrutiny, checks and levels of approval for commercial activity in recognition of the enhanced risk involved.

5.4 The Council already operates on a commercial basis in some areas of its core activity. The success of these functions provides assurance in terms of the Council's ability to manage commercial activity.

6. Southport Town Deal

6.1 Southport is one of 100 towns identified as potential recipients of the Government's Towns Fund, Cabinet approved a bid submission and Town Investment Plan (TIP) at the October 2020 Cabinet meeting. The process requires leadership of a Town Deal Board, with a private sector Chair, but the Council is required to undertake the role of Accountable Body for the bid and to be the organisation through which funding will flow.

6.2 The objective of the Town Deal Fund is to drive the economic regeneration of towns to deliver long term economic and productivity growth through:

- Urban regeneration, planning and land use
- Skills and enterprise infrastructure
- Transport and Digital Connectivity

6.3 If successful, the bid for Sefton could bring up to £50m of investment into the town. The Capital Strategy sets the governance framework from which the Council as Accountable Body for the bid will ensure: good governance, transparency, public consultation (building on the Community Engagement Plan – May 2020), developing detailed and robust business cases, monitoring and evaluating projects, receiving and accounting for the funding allocation.

7. Non-Financial Investment Strategy

7.1 The Council's non-treasury investments consist of an Investment Property portfolio of over 200 properties. They delivered a return for the Council after deducting for the cost of maintenance, net income of £2.2m in 2019/20, which contributes towards the provision of services.

7.2 The investment property portfolio is fully owned by the Council and no outstanding loans are held against it. No new investment properties have been added for several years. Any future purchases of such assets will follow the procedures set out in sections 2 and 3.

7.3 All properties classified as investment properties are revalued on an annual basis as part of the Statement of Account process and valuations are externally audited. The value at 31st March 2020 was £61.8m. All investment properties are valued at greater than original purchase price and have hence produced an unrealised capital return.

7.4 The liquidity of the portfolio will depend upon the prevailing market conditions. However, access to funds is not considered an issue as the portfolio does not provide security against loans and is providing an adequate return.

7.5 Any loans made by the Council that will support projects aligned to the Framework for Change programme, will require a full business case including robust due diligence and will be approved in accordance with the Councils governance processes. Any loan granted will be within the Councils approved prudential indicators.

8. Debt, Borrowing and Treasury Management

8.1 The Council has adopted CIPFA's revised 2017 Code of Practice on Treasury Management in public services which recommends the production of an annual Treasury Management Policy and Strategy documents. These documents are approved as part of the annual budget setting process and are monitored by the Audit and Governance Committee. The strategy document sets out in detail how the treasury management activities are to be undertaken in a particular year to comply with the Council's Treasury Management policy.

8.2 The Treasury Management Strategy details how the Council will manage its borrowing, investments and cash flow and therefore forms an important part of the overall Capital Strategy. The Capital Programme and the mix of funding sources determines the borrowing requirement of the Council, which will require management of the Council's cash flow to ensure that the Council can meet both its future revenue and capital obligations.

8.3 If the Council is required to borrow funds, it can seek to support the capital programme through prudential borrowing from the Public Works Loan Board (PWLB). This borrowing is not supported by government grant. It means that there will be a future charge to the revenue budget to pay back the principal amount borrowed plus accrued interest. As a result, robust financial appraisals are used to determine a future financial benefit from the initial investment, which will be able to fund the future charge to the revenue budget and potentially achieve further cashable savings or income generation, for instance an invest to save (or earn) scheme, strategic investment or major regeneration schemes.

8.4 An evaluation of funding options will be undertaken with external advisor support, thus ensuring the most advantageous position for the Council by securing the greatest value for money option to fund new capital schemes.

8.5 The Council's borrowing limit is contained within the Prudential Indicators Report:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Authorised Limit	244.000	245.000	233.000	227.000

8.6 In recent years, the Council has followed a policy of internal borrowing, whereby borrowing for the capital programme is deferred whilst the Council holds healthy cash balances. This is advantageous as it avoids cost of carry and reduces the overall borrowing costs. This position requires careful management of interest rate risk in conjunction with our treasury consultants.

8.7 The Council has regard to the Ministry of Housing, Communities and Local Government's (MHCLG) guidance on the application of minimum revenue provision (MRP). The recommended MRP policy is summarised below:

Category	Basis of MRP Calculation
Supported Borrowing	Annuity Basis over 50 years (commencing from 1 April 2015)
Unsupported (prudential) borrowing	Annuity Basis – Calculated using the estimated life method

Standard asset lives applied to calculate MRP charge vary from 3 years for intangible assets to 50 years for land.

9. Public Works Loan Board (PWLB) Consultation

9.1 Borrowing by local authorities from the PWLB has increased markedly during the last ten years, with many councils borrowing to fund the acquisition of commercial assets with the intention of generating an income stream from such assets. The National Audit Office estimates that £6.6bn of commercial property was purchased by local authorities between 2016/17 and 2018/19 which coincided with a reduction in the price of PWLB loans.

9.2 Government want to guard against councils taking advantage of low rates to purchase commercial assets, and where the anticipated income does not materialise, avoid the risk of taxpayers having to service the loan repayments.

9.3 Following a period of consultation, the government proposed:

- Councils that wish to access the PWLB, should confirm that they do not plan to buy investment asserts primarily for yield.

- To publish guidance on the activities that the PWLB will no longer support, with clear protections for service delivery, regeneration, housing, and refinancing existing debt.
- Standardising the information currently gathered during the application process for the PWLB certainty rate and using this as the primary way to confirm that their plans conform with the guidance.

9.4 Local authorities can still purchase commercial assets, or assets primarily for yield, if they so wish but this cannot be funded from the PWLB. Following the publication of HM Treasury's response to the consultation on the 20th November 2020 a 1% surcharge (applied in October 2019) has been removed. In due course the Government is publishing revised lending terms for the PWLB and guidance to support councils to determine if a proposed project is an appropriate use of a PWLB loan.

10. Risk Management

10.1 Risk management across the Council has been reviewed in a process led by the Chief Internal Auditor. A corporate risk register is in place, as are service area risk registers. The final stage has seen operational, project and transformation risk registers developed.

10.2 Section 2 in the strategy describes the consistent approach to project management from concept stage through to full business case approval. The Project Charter has a risk section which means that consideration of risk and its mitigation is at the forefront throughout the project design and feasibility stage.

10.3 Risk management is embedded in project and programme boards. Live projects are subject to challenge in project board meetings from the Project Sponsor and Senior Responsible Officer. Significant risks will move on to Service and Corporate risk registers and be reported through capital scheme updates in the monthly budget monitoring report to Cabinet.

10.4 Treasury management risk is managed in line with MHCLG investment guidance principles of security, liquidity and yield. The Council's risk appetite for financial investments is detailed in the Treasury Management Strategy. The risk appetite is low, security and liquidity being the key principles underlying the investment strategy. The Treasury Team balance the risks associated with cash management, mitigating risks as much as possible to seek maximum financial return.

10.5 Treasury management activity will be reported to Audit and Governance via quarterly reports and an outturn report. Cabinet and Council receive a half yearly report and the annual outturn report.

11. Knowledge and Skills

11.1 The Council has a wide range of expertise to call upon, including professionally qualified legal, finance and property officers, to support the delivery of the Capital Strategy and Framework for Change.

11.2 There is commercial expertise across the Executive Leadership Team and Senior Leadership Board and a commercial approach is being embedded across the organisation.

11.3 Recent changes to the senior management structure have been made to better meet the resource requirements to support Framework for Change going forward.

11.4 Support services, including Finance, Legal, Property and Business Intelligence and Commissioning, are regularly reviewed with a focus on providing the right support and officers with the necessary skills, to work with the frontline service and project managers. Where gaps in knowledge are identified the relevant training is co-ordinated for individuals or teams.

11.5 The Capital Programme and Treasury Management Strategy is managed by a team of qualified accountants who follow a programme of continual professional development, attending tailored courses offered by the Council's retained treasury consultancy.

11.6 As part of the Treasury Management Strategy it is a requirement that all members involved in treasury management understand this complex area. Annual training is open to all members and is delivered by external treasury consultants. A record is maintained of member attendance.

APPENDIX 1 - Capital Programme 2021/22 & 2022/23

CURRENT CAPITAL PROGRAMME	**2021/22 £'000**	**2022/23 £'000**
ADULT SOCIAL CARE		
Disabled Facilities Grant	1,421	
Double to Single Handed Care Equipment	282	
Community Equipment Store - Vehicle Replacement	242	
Assistive Technology Supported Living	190	
Changing Places	200	
Retail Model within Health and Wellbeing Hubs	450	
Extra Care Housing		750
Improvement Programme - Complex Needs	1,200	
Wider Social Care Programme (unallocated)	2,770	
COMMUNITIES		
Libraries	265	
CORPORATE SERVICES		
Corporate Maintenance	18	
Council Wide Essential Maintenance	2,462	
Victoria Baths Essential Works	147	
PSR - Cost of Change	221	
ECONOMIC GROWTH AND HOUSING		
Strategic Acquisitions - Land at Bootle	149	
Town Centre Commission - Bootle	250	
Southport Market Redevelopment	500	
Cambridge Road Centre Redevelopment	70	
Crosby Lakeside Redevelopment	2,100	
Strategic Acquisitions - Ainsdale	1,000	
HMRI	50	
Southport Pier	131	
EDUCATION EXCELLENCE		
School Funding (unallocated)	629	
School General Maintenance	52	
Birkdale Primary - Replace Fire Alarm	46	
Christchurch Primary - Windows, Roof, Playground	271	
Farnborough Rd Infants - Boiler	6	
Farnborough Rd Junior - Wiring, Fire Alarm, Lightning Protection	191	
Farnborough Rd Site - Boundary Walls & Brickwork, Roof	150	
Forefield Juniors - Asbestos Removal	118	
Freshfield - Boiler Replacement and Replace Wiring	103	103
Grange - Boiler, Rewiring, Lightning Protection, Roof Refurb	536	
Great Crosby Remodelling - Phase 4	27	
Hatton Hill - Roof Refurbishment	67	
Hudson Primary - Windows, Roof Refurbishment, Heating Ducts	524	24
Jigsaw - Thornton Family WB - Upgrade Fire Alarm System	19	
Kings Meadow Primary - Replace Wiring Systems	113	115
Lander Road - Replace Fire Alarm System	29	1

CURRENT CAPITAL PROGRAMME (continued)	2021/22 £'000	2022/23 £'000
Larkfield Primary - Refurbishment of Toilets	38	
Linacre CP - Repoint and Repair Brickwork, Walls, Kitchen Dining Link	15	
Linaker Primary - Cold Water Storage	81	
Lydiate Primary - Rewiring & Windows, Roof, Playground, Sanitary	760	
Marshside Primary - Lighting, Fire Alarm, Roof, Playground, Car Park	265	2
Meols Cop - Roof Refurbishment, Car Park Surface	210	
Merefield - roof works, playground	27	
Netherton Moss - Rewiring and Roof, Toilets, Brickwork, Windows	350	
Northway Primary - Hall Floor Refurbishment, Toilet Refurbishment	42	
Norwood Primary - Upgrade Fire Alarm System	36	1
Oakfield - Re-surface Car Park and Re-lay Footpaths	28	
Sand Dunes - Replace Fire Alarm System	10	
St. Philip`s CEP (Litherland) - Replace Boilers	130	
Summerhill Primary - Replace Wiring Systems	151	155
Waterloo Primary - Roof refurbishment, Brickwork Repairs	21	
Woodlands Primary - Rewiring, Repointing Brickwork & Flue Repairs	179	
Crosby High - Accessibility Works	1	
Rowan Park School - Expansion	11	
Rowan High 6th Form - 3 Classrooms	725	25
Daleacre - Toilets, Changing Rooms, Fire Doors, Security	50	
Oakfield - Lockdown Facility, Fire Doors	18	
Pinefield - Internal Alterations	30	
HIGHWAYS & PUBLIC PROTECTION		
Area Accessibility	150	
Pedestrian Refuges	30	
Travel Awareness Cycling & Health	50	
Kirkby to Maghull Cycle Route	162	
Southport East West Links	250	
ERDF SUD Environmental Improvements	98	
Local Safety Schemes	125	
Thornton Area Traffic Management	60	
A565 Corridor Improvements - Great Georges Road	290	
Crosby Coastal Park	930	
Strategic Design	30	
Crosby Town Centre Access / Accessibility	15	
Electric Vehicle Charging	25	
Environmental Improvements in Residential Areas	15	
A59 Maghull Route Management	250	
Active Travel Tranche 2	700	
Schools Streets Schemes	30	
Scarisbrick Avenue	820	
Bridges	1	
A565 Northern Key Corridor Improvements	200	
LOCALITY SERVICES		
Blue Recycling Wheeled Bins	1,230	
Vehicle Replacement Programme	7,282	113
Burials & Cremation Insourcing - Vehicles & Equipment	90	

CURRENT CAPITAL PROGRAMME (continued)	2021/22 £'000	2022/23 £'000
Green Sefton - Plant & Machinery	123	
Flood Management Schemes	542	786
Parks Schemes	257	127
Golf Driving Range Developments	480	
Total Current Grant Allocations and Other Funding	**34,412**	**2,202**
Less: Unallocated Education Funding c/fwd	-629	
Less: Unallocated Adult Social Care Funding c/fwd	-2,770	
TOTAL PROGRAMME	**31,013**	**2,202**

GRANT ALLOCATIONS 2021/22 to 2022/23 (indicative amounts)	2021/22 £'000	2022/23 £'000
School Allocations		
Devolved Formula Capital (direct school allocation)	346	346
Capital Maintenance Grant	1,466	1,466
Unallocated Funding b/fwd	629	
	2,095	**1,466**
Proposed Schemes: -		
Schools General Maintenance	450	
Birkdale CP - Roof, fire precaution work, replace windows, brickwork	150	65
Daleacre Impact - Repoint brickwork	20	
Farnborough Infant - Roof system - Wellbeing Centre	25	
Farnborough Road Junior - Roof incl. RWPs, gutters, facias, soffits	90	50
Forefield Infants - Land drains, high level windows, brickwork	40	20
Hudson Primary - Roof phase 2, drainage, repoint and concrete sills	60	140
Linacre Primary - Outdoor play canopy and main hall improvements	70	40
Lydiate CP - Drain repairs and roof repairs Phase 2	20	115
Marshside Primary - Rewire	190	
Merefield Special school - Roof repairs phase 2 and playground	115	120
Netherton Moss - Fire doors	25	25
Northway Primary - Toilets - additional W/Cs	30	
Northway Primary - Security	38	
Pinefield PRU - Replace ceilings and light fittings and fire doors	45	
Redgate Primary - Accessible ramps to classrooms and brickwork	33	
SEND provision - Hudson Primary and Impact	500	
St John Crossens - Repoint brickwork	24	
St Johns Crossens - Specialist toilets	80	
St Philips Litherland - Roof repairs	45	
Valewood Primary - Ceilings and lighting in classrooms and rewire	25	
Waterloo Primary - Repoint brickwork	20	
	2,095	**575**

(Indicative Amounts Continued)	2021/22 £'000	2022/23 £'000
Transport Allocations		
LTP - Highways Maintenance Block	1,800	1,800
LTP - Integrated Transport Block	990	990
LTP - Key Route Network	900	900
Pot Hole Funding	175	175
	3,865	**3,865**
Proposed Schemes: -		
Southport East-West Links (Phase 2)	260	
Southport Liveable Neighbourhoods	500	
Southport Environmental Improvements	98	
Crosby Coastal park	930	
Southport Eastern Access	500	
Maritime Corridor	500	
Crosby Town Centre	140	
A59 Damfield Lane	200	
Scarisbrick Avenue	50	
Southport Town Centre Improvement	90	
Bootle Town Centre Connectivity	60	
A565 Ince Woods Corridor Improvements	80	
A59 – Northway Corridor	200	
Liveable Neighbourhood scheme	50	
	3,658	**-**
Adult Social Care Allocation		
Better Care Fund	4,251	4,251
Unallocated Funding b/fwd	2,770	
	7,021	**4,251**
Proposed Schemes: -		
Disable Facilities Grants – Core Grants	2,700	
Children's Social Care – Support for Fostering Placements	100	
Technology Enabled Care (TEC) – Equipment & Service Development	444	
ICT Development & Transformation	773	
Recurrent Funding for officers already in post	104	
Occupational Therapy Support	256	
Care Home Improvements	1,700	
Community Equipment	377	
	6,454	**-**

Report to:	Overview and Scrutiny (Regulatory, Compliance and Corporate Services) Cabinet Council	**Date of Meeting:**	9 February 2021 11 February 2021 4 March 2021
Subject:	Robustness of the 2021/22 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	(All Wards);
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:
To comply with statute, the Chief Financial Officer is required to report to Council prior to the approval of the budget and the setting of the Council Tax, to give assurance that the budget is robust and that there are adequate reserves and balances. The report is based on the proposals presented at this meeting.

Recommendation(s):
The Local Government Act 2003, (section 25 as amended) requires the Chief Financial Officer to report formally on the following issues:

a) An opinion as to the robustness of the estimates made and the tax setting calculations;
b) The adequacy of the proposed financial reserves; and
c) The production of longer-term revenue and capital plans

The Council is requested to have regard to the matters raised in this report during the final stages of determining the budget for 2021/22.

Reasons for the Recommendation(s):
The Local Government Act 2003, (section 25 as amended) requires the Chief Financial Officer to report formally on the issues contained within this report.

Alternative Options Considered and Rejected: (including any Risk Implications)
None

What will it cost and how will it be financed?

(A) Revenue Costs
Decisions taken as a consequence of this report will influence the Council's Revenue and Capital Budgets and Council Tax for 2021/22 and thereby shape the Council's financial plan for future years.

(B) Capital Costs
None

Implications of the Proposals:
The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Resource Implications (Financial, IT, Staffing and Assets): None
Legal Implications: The Council is required to set a Budget and Council Tax level on or before 10 March 2021 and must consider the comments of the Chief Financial Officer before that decision is taken.
Equality Implications: None

Contribution to the Council's Core Purpose:
Effective Financial Management and the development and delivery of sustainable annual budgets support each theme of the Councils Core Purpose.

Protect the most vulnerable: See comment above
Facilitate confident and resilient communities: See comment above
Commission, broker and provide core services: See comment above
Place – leadership and influencer: See comment above
Drivers of change and reform:

See comment above
Facilitate sustainable economic prosperity: See comment above
Greater income for social investment: See comment above
Cleaner Greener: See comment above

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services is the author of the report (FD 6287/21).

Chief Legal and Democratic Officer has been consulted and his comments are incorporated in the report (LD 4488/21).

(B) External Consultations
None

Implementation Date for the Decision
Following the Budget Council Meeting.

Contact Officer:	Stephan Van Arendsen
Email Address:	Stephan.vanarendsen@sefton.gov.uk

Appendices:
There are no appendices to this report

Background Papers:
There are no background papers available for inspection.

1. Introduction

1.1 This report has been prepared in accordance with the statutory requirements of the Local Government Act 2003 which requires the Authority to report to Members on the robustness of budget estimates, the adequacy of proposed reserves and the development of longer-term budget plans.

2. ROBUSTNESS OF BUDGET ESTIMATES

2.1 The budget for 2021/22 has been developed in the midst of the global pandemic which has consumed and impacted all areas of Council business since March 2020 and will continue to do so for years to come. This not only applies to the impact on service delivery and the role of the Council, but on every aspect of financial management.

2.2 As such, developing a robust set of budget estimates for the financial year 2021/22 has been incredibly difficult and both these estimates and the risk profile of the Council will continue to change fundamentally over the next 12 months. The budget proposed however, represents the most accurate position that is available at the current time and like during the financial year 2020/21, regular updates will be required to be presented to Cabinet and Council in order that informed decision making can take place during the year in order to maintain financial sustainability.

Core Council Budget

2.3 As a result of the pandemic, a number of Council services and budgets have been severely impacted during 2020/21 and will continue to do so into next year. The impact on the adult social care market, the significant increase in the Council's looked after children numbers and the financial pressure that this brings, the impact of an increased number and cost of packages for children with disability and home to school transport costs have all been key features of the budget in 2020/21 and this will continue into this next year and beyond- as is the impact on the Council's income generating activities. As the world remains in the middle of the pandemic, work is ongoing to evaluate the impact in each of these areas, however it is clear that this impact will continue to change and evolve over a number of years.

2.4 The difficulty that this presents to the Council's financial planning is whether these issues will continue and represent a new baseline position for the Council for years to come or represent a temporary position and will revert to pre-pandemic levels at some stage. At this stage Sefton, like all councils, is not in a position to understand this or make financial plans accordingly.

2.5 These budgets discussed in paragraph 2.3 represent a significant proportion of the Council's overall budget and are those that are subject to demand pressure and are difficult to monitor. The budget presented therefore re-baselines these (based on end of December 2020 figures) and provides additional support, in particular to the Looked after Children budget, to take account of pressure that came through in 2020/21 and to provide an additional provision of £2m for potential additional pressure that may arise in 2021/22. This has been the Council's biggest risk budget in recent years and will continue to be so in this next year and this additional provision reflects the level of growth pressure experienced in previous years and is the best estimate at this stage. This maybe the subject of change however, especially with any further pressure that comes through in the final quarter of 2020/2021 that will have an ongoing impact into the 2021/22 financial year. This will also be exacerbated by the national lockdown announced by the Prime Minister on 4th January 2021 and which will cover the majority of this period, however due to the timing of the budget process this impact will not be known until April 2021 at the earliest.

2.6 Adult Social Care is the largest budget the Council has and as a result of the pandemic, this budget has been dislocated with each service area experiencing a range of different issues. The external market in particular has been disproportionately affected and which services are provided to whom during 2020/21 has changed drastically. Provision within the budget has been made for additional funding to be provided to the external market for an annual uplift in fees but from a financial management point of view, each area of the service will need continual and rigorous monitoring throughout the year to understand the financial impact of the pandemic and then make recommendations on how this should be reflected in the financial management of the service and the wider Council.

<u>Ongoing impact of COVID</u>

2.7 In developing this budget plan, consideration has been given to the ongoing impact of the pandemic. To a certain extent this has also been reflected by central government in the financial settlement that has been awarded to all councils, however due to the unprecedented impact of the pandemic and the impact it has had on the Council, neither central government nor the Council can fully understand and mitigate this- this will need to be tracked throughout the year, with the financial impact being understood, reported and then acted upon.

2.8 Within this budget plan, this ongoing impact is reflected with the following provisions being made:-

- For a further loss of income from fees, charges and sales income in 2021/22;
- For the cost of reduced levels of council tax and business rates income from 2020/21 and 2021/22;
- For an increase in the council tax bad debt provision and impact of business rates appeals; and
- For unforeseen COVID related costs in 2021/22

2.9 Central government will provide the Council with support during 2021/22 in respect of some elements of irrecoverable council tax losses from 2020/21, a contribution to the negative impact on the council tax base for 2021/22, some support for the loss of income from sales, fees and charges income for the first quarter of the year and a one off grant allocation that is designed to cover the ongoing cost of responding to the pandemic.

2.10 In providing this settlement, central government has advised that the financial impact of the pandemic will be continually reviewed during the year and this will determine whether any further support is provided to councils. This will be based on the impact of mass testing, impact and timing of vaccination roll out, future restrictions, economic conditions and other key metrics.

2.11 In addition to the key risk around increased demand for key Council services, the biggest financial impact and risk to the financial sustainability of the Council arising from the pandemic has been, and will continue to be, the impact on the Council's Collection Fund- i.e. what it collects from council tax and business rates. In developing this budget package, consideration needs to be given to both the impact arising from reduced collection rates from 2020/21 and those expected in 2021/22.

2.12 In respect of 2020/21, as at the end of December, it is forecast that the Council will need to fund approximately £4.7m of collection fund losses for that year. This reflects central government outlining that they will support council losses to the value of 75% from residents moving to the Council Tax Reduction Scheme and losses associated with non-payment of Business Rates. The largest sum within this figure however is in respect of non-collection of council tax income (£4.0m). No support will be provided in respect of this, with direction being that where a charge has been levied, then councils should collect via normal enforcement activity that income due. These factors present the Council with a sizeable funding gap that needs to be financed as part of this overall budget package and strategy-it is proposed that the Council's 2020/21 emergency fund income be used to fund this estimated £4.7m sum, with any residual amount being funded from temporary budget measures in 2021/22.

2.13 Estimates for council tax receipts for 2021/22 have been updated to reflect activity in 2020/21 (increased number of residents who are on the council tax reduction scheme and increased non-payment). This estimate of a forecast reduction amounting to £3.564m has been used to inform the Council's base position but will invariably change and will need to be updated throughout the year. Central government has outlined that it will provide support for this loss and at this stage it is considered that this support will be sufficient to meet the majority of this estimate but the impact on the longer-term financial sustainability of the Council cannot yet be determined and is a key risk.

2.14 With regard to Business Rates, central government have advised that they are currently not assuming that there will be any reduction in the income that is due to be collected by councils compared to March 2020. This however is not consistent with the feedback that is being provided by councils at this stage and based on experience of 2020/21 is not the experience in Sefton. It is estimated that based on the 2020/21 position that £3m of the Council's income will be at risk as businesses no longer exist or cannot afford to pay business rates. As a result, the Council's base position should in theory be reduced. The Council has chosen to follow central government guidance and the feedback is that this national position maybe reviewed mid-year depending on the actual experience across the country. To mitigate the risk that additional support is not provided this potential loss will be met by a number of temporary budget measures in 2021/22.

2.15 The impact of the pandemic on the Council's Collection Fund is clear (currently estimated at £7.8m across 2020/21 and 2021/22) and well publicised, but this also impacts on the provisions that the Council must make for bad debt and appeals against business rates charges. These are both increasing significantly, and additional provision has been made for bad debt in respect of council tax and business rates appeals.

2.16 Moving into the financial year 2021/22 and developing a robust financial plan is unlike any previous year and will present the Council with significantly increased financial risk and volatility in all areas. The impact on adult social care and children's social care budgets is unprecedented and the Collection Fund is under extreme pressure. The estimates included in this budget plan are the most accurate that are available at this point in time, as are details of the support that has been made available to the Council- these estimates will change consistently through the year and will threaten the financial sustainability of the Council both in the short and medium term. Regular and rigorous budget monitoring will be required of all aspects of the council's budget and be reported to Cabinet and Council from the start of the year and to central government on a monthly basis as instructed.

2.17 The impact on the Collection Fund in both 2021/22 and beyond is the biggest risk however and continued support will be required otherwise the Council will need to find significant compensating savings (currently estimated at £6.6m) in order to continue to balance its budget in future years. As a result, and as in previous years, decisions will be required by Members during 2021/22 to ensure the in-year budget is balanced and budget proposals for 2022/23 are approved in sufficient time for implementation, again to meet the changing financial landscape. At this stage it is anticipated that without additional financial support the Council will face a funding gap over the next three years of £27m (excluding potential increases in Council Tax, loss of government grant or growth in key budgets).

Framework for Change

2.18 In February 2020, Council approved the three-year Framework for Change programme. It is considered that the aims and objectives of this programme remain correct and provide the basis for future financial sustainability. Based on the previous information in this report it will be important that this programme continues during 2021/22, especially in regard of those workstreams that will reduce the demand for Council services and its cost base and those that will modernise the Council, allow it to take advantage of new ways of working and technology and operate more effectively and efficiently. Depending on the financial impact of COVID in year and looking ahead to 2022/23 and beyond, these workstreams may have to be updated to deliver further savings to support financial sustainability, especially if pressure within Children' Social Care continues and ongoing support to the Collection Fund is curtailed.

2.19 Similarly, the Council's Growth and Strategic Investment Programme continues to progress. Some of this activity, notably the Strand and Sandway Homes, are now embedded within the Council but evaluating the impact of COVID and ensuring that appropriate financial oversight is applied to each will be critical to understand the impact on the Council's finances. Evaluating the impact and making informed decisions on each of these projects that support financial sustainability will be required during the year. A number of projects are at an earlier stage of delivery and during the year the Council will be integral to the agreement of the projects that will make up the Southport Town Deal. Due to COVID and the change in the financial risk profile of the Council, it will be critical that all decisions and proposals are considered within this new financial environment, with projects not only being considered on their own financial merits but also the impact on the whole portfolio.

2.20 In advance of the proposed three-year Comprehensive Spending Review announced by the Chancellor for 2022/23 to 2024/25, the funding gap that could be faced by the Council across these three years is estimated to be £27m . To ensure financial sustainability, the Council should build on its previous success of setting multiyear budgets and develop budget proposals from the Framework for Change Programme to this value for implementation from 2022/23. A timetable to support this is included within the budget report.

Resources to Deliver Framework for Change 2020

2.21 A key factor that the Council will need to consider during the year will be its capacity to deliver this framework for change programme. The Council, its members and officers continue to respond to the pandemic, and this continues to take a significant amount of time and capacity whilst also ensuring business as usual services continue. The capacity to deliver a change programme as well as support recovery from the pandemic, that will drive the delivery of financial savings will inevitably require prioritisation. In the 2020/21 budget a cost of change budget was approved- this has now been fully utilised therefore any further provision will need to be linked directly to savings that can be generated.

Factors to be Considered

Impact of Previous Years' Budget – 2020/21

2.22 As a result of this financial environment, there has been an increased emphasis in developing this year's budget on ensuring that services start the year with an appropriate budget to meet current demand. In setting the budget for 2021/22, any service with a forecast budget shortfall at the end of December 2020, has seen this issue addressed in order that they can start the year with a sustainable budget. This equates to £7.7m required investment within Children's Social Care, Children with Disabilities, Home to School Transport and Locality Services.

2.23 This position may vary between the time of establishing the budget and year end especially when the ongoing impact of the pandemic and the lockdown announced on 4th January 2021 is factored in. As such the first monitoring report of 2021/22 will need to identify any emerging issues and required remedial actions.

2.24 The largest contributing factor to this position is the Children's Social Care budget. The number of looked after children requiring placements has increased from 558 (as at end of November 2019) to 618 at November 2020 and this has added significant pressure to the budget. This upward trajectory is being experienced by a number of local authorities and whilst the Council is taking steps through the demand management project to reduce this, the financial risk for the forthcoming year is significant. The pressure arising from 2020/21 has been met via this budget and as reported provision for a further £2m has also been built in for 2021/22.

Central Government funding

2021/22

2.25 For 2021/22, the Council has received a one-year financial settlement. This reflects the uncertainty within the national economy as a result of the pandemic with the promise of a three-year comprehensive spending review for 2022/23 to 2024/25 to be delivered during 2021.

2.26 In terms of what would be a traditional Council budget, there is certainty around support to this. As has been discussed earlier within this report however, there remains two risks that will need to be monitored, reviewed and reported on both internally and as the year progresses to MHCLG. Firstly, is evaluation as to whether the COVID related support provided by central government will be sufficient to mitigate the impact that the Council is experiencing in some of its key budgets and the collection fund and secondly, whether additional support will be provided as the impact of the pandemic continues to be felt beyond Quarter 1 of 2021/22. These are key risks and the Council will need to be cognisant of the need to potentially make in year decisions depending on how discussions and dialogue with central government progress. This will be particularly important in respect of business rates income as at present no support has been offered for the inevitable losses that will be experienced.

Maintaining Service Delivery

2.27 The scale of the budget shortfall that the Council has faced over the last decade has led to both service reductions and a transformational approach to all areas of activity in order to ensure that the Council's core purpose that was derived from the Sefton 2030 vision can be delivered. For 2021/22, the key challenge faced by the Council is that its demand led budgets, e.g. Children's Social Care and home to school transport, which were already under pressure will have seen that demand increase significantly on the back of the pandemic. There is an upward trend within each of these areas that needs to be met by the Council and whilst in this budget this has been met (based on end of December 2020 information) there is no room for variation on this.

2.28 These budgets represent 63% of the Council's net budget, and as further support is provided to the most vulnerable within the Council's communities, it means that compensatory savings or no investment will be possible in other key Council services. This position will continue into 2021/22 and if additional investment is required in these services it will need to be funded from compensatory savings elsewhere in the approved budget.

Inflation and Annual Cost Increases

2.29 The Council, as in previous years, has provision for specific allocations to provide funding for contractual and other inflationary pressures such as annual pay increases. This reflects the latest information available having conducted a Council wide review of existing contracts and the likely impact of future pay negotiations. Within this budget package however there continues to be no provision for general price inflation. Due to the severity of the financial challenge facing the Council, services will be required to manage any such pressure within their existing cash limits. The exception to this within the budget package is that provision has been allocated to support the increased cost of ICT contracts- the cost of the Council's major ICT systems has increased significantly in recent years and cannot be contained within existing budgets.

Financial Management

2.30 The Council has an embedded process with regard to its Financial Management, and its reporting strategy reflects the monitoring undertaken by the Executive Leadership Team, Strategic Leadership Board, budget holders and the central Finance Team. Monthly reports are considered by Departmental Management Teams, Strategic Leadership Board and Cabinet. Overview and Scrutiny Committee also have a standing agenda item in respect of capital and revenue monitoring.

2.31 To support this approach and the inherent risk that is within the budget, a financial management review took place in 2019 and all service schemes of delegation will be updated prior to the commencement of the new financial year in order to further define and re-enforce the roles and responsibilities of Heads of Service, Budget Holders and finance staff. In addition, an updated set of Financial Procedure Rules were approved by Council in November 2020 and new budget monitoring forecasting system is being introduced across the Council during 2021/22.

2.32 It has been stated both within this report and also the wider budget report, that the level of financial risk facing the Council and indeed all local authorities is increasing significantly due to the ongoing pressure on demand led budgets and as a result of the pandemic and that the budget estimates contained for the Council over this Budget Plan period reflect the Council's ambition to deliver services that align with its 2030 vision, core purpose and ensure that it remains financially sustainable.

2.33 In order to manage these risks and objectives, the Executive Leadership Team, Strategic Leadership Board and Members will need to monitor each element of the Council's budget and demand for services forensically and in accordance with best practice in order that this risk can be mitigated as far as possible. Due to the level of risk that now exists within all areas of the councils budget this monitoring will be of even greater importance as will the speed that decisions are made in order to implement mitigating actions that will ensure financial sustainability.

CIPFA Financial Resilience Index and the CIPFA Financial Management Code

2.34 The financial risks facing the Council in 2021/22 and beyond have been set out within this report and the wider budget report and as would be expected after the last decade and as a result of the pandemic, this level continues to rise. This is similar for most local authorities.

2.35 During the last three years and especially in the last 12 months, it has been widely publicised that a number of these authorities have encountered real financial difficulties with some issuing s114 notices. To support financial sustainability, CIPFA commenced the production 18 months ago of two key annual assessments that aim to evaluate a council's financial resilience and ensure that financial management is of the required standard across the organisation.

CIPFA Financial Resilience Index

2.36 CIPFA developed its Financial Resilience Index which is intended to assist local authorities by identifying various indicators of potential financial stress for the organisation. As previously reported there are 15 indicators which are compared to other local authorities - 7 of these indicators relate to the level of reserves held compared to net revenue expenditure, 5 relate to the proportion of expenditure on high risk services (e.g. Adult and Children's Social Care) and 3 on the reliance of specific types of funding (Government Grants, Council Tax and Business Rates).

2.37 At this time, the Index has yet to be updated to reflect the position as at the end of 2019/20. Therefore, the comments below relate to the position as at the end of 2018/19 published at the beginning of 2020.

2.38 When compared to other metropolitan district councils Sefton would appear to compare favourably (this being a relative conclusion when the overall financial environment within with the Council is operating is considered) in relation to its budget flexibility, i.e. relatively it spends a lower proportion of its budget on high risk services where the ability to reduce overall expenditure on these services is less due to rising demand. Sefton also compares favourably in that it is relatively less reliant on grant income, being more reliant on council tax income as an overall percentage of its funding.

2.39 However, the Index shows that Sefton is at a higher risk of financial stress (relative to others) due to its level of reserves (both General Fund Balances and Earmarked Reserves) at the end of 2018/19 being relatively lower than many other metropolitan councils. The level of Sefton's Earmarked Reserves being low at that time was partly due to the temporary use of Earmarked Reserves to fund the upfront payment of the Local Government Pension Scheme Deficit (reserves were replenished in 2019/2020). In addition, Earmarked Reserves are held for specific purposes so the level of reserves held by a local authority will be dependent on the specific circumstances that exist.

2.40 General Fund Balances aren't held for a specific purpose but to give the Council the ability to manage unexpected events. The Council has had a relatively stable level of General Fund Balances for a number of years, showing that in-year budget pressures, which have often been significant, have been managed without the need to call extensively on balances. However, the Index has highlighted the relatively low level of Sefton's General Fund Balances when compared to other metropolitan councils. The average level of balances held is in the region of 5.5% of net revenue expenditure versus Sefton's current level of approximately 3%. The strategy agreed last year to address the low level of balances is discussed further in Section 3.

CIPFA Financial Management Code

2.41 In addition to the Financial Resilience Index, CIPFA have also developed a Financial Management (FM) Code. This FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities. This Code was launched in November 2019 and at that stage authorities were advised that they should introduce this in 2020/21 prior to full implementation in 2021/22.

2.42 The code is based on establishing Principles of Good Financial Management with these being translated into financial management standards. Each local authority has to then detail how it meets these standards and what improvements are required in order to ensure compliance.

2.43 As part of this budget setting process, the Council's finance service has completed a self-assessment of compliance with the Code that has included input from the Strategic Leadership Board to reflect that financial management and good practice needs to be embedded across the Council and at all levels of the organisation. This output will be shared with the Council's external auditor and will be presented to a forthcoming meeting of Audit and Governance Committee. Due to the pandemic this has not progressed as has been intended and the Council has received no direction either from CIPFA or the external auditor as to any expectations around the Code. Nevertheless, in Q1 of 2021/22 a review the Council's self-assessment will be made together with the development of an action plan that will be presented to Members of Audit and Governance committee and the external auditor in due course.

Management of Risk

2.44 The Council manages risk on an ongoing basis at all levels of the organisation. In doing so it has developed policies, processes and systems that reflect its internal governance arrangements and the constitution. As far as possible this allows the Council to anticipate risks as they emerge. These processes are supported by the Council's Internal Audit and Risk Section, the annual review of Corporate Governance and the completion of the Annual Governance Statement.

2.45 Given these controls and processes, the likelihood of unanticipated budget issues has been reduced as far as possible, however as outlined in this document and the budget report, the financial risks facing the Council both in this year and future years continue to increase, especially as a result of the pandemic. In the event that these have a material impact on the Council's budget, a remedial action plan will be required in year- this is becoming increasingly difficult to deliver therefore the role of members in taking efficient and effective decisions informed by officer proposals will be key.

2.46 The Council, in addition to its monthly reporting process, now has an embedded process whereby it conducts, first quarter, mid-year and three-quarter year reviews. These are designed to enable members and officers to gain assurance on the deliverability of a sustainable budget and visibility of any other emerging issues. In 2020/21 these comprehensive reviews have been done each month as a result of the impact of the pandemic and it is proposed that this approach continues into 2021/22.

Capital Strategy and Strategic Investment

2.47 As part of the reform process of local government finance, the Council now receives a modest level of capital grant to support investment. This budget provides for the utilisation of this funding in 2021/22 and an indicative plan for future years.

2.48 The Council, as stated previously, has identified that its economic growth and strategic investment workstreams are key to supporting its 2030 vision and core purpose in addition to financial sustainability. With the reduction in capital resources that are available from central government, the Council will continue to explore opportunities and methods to generate funding to support these activities over the next 3-5 years. This approach is reflected in the budget report. Where a proposal to generate an income stream is made, the use of prudential borrowing will be considered, and in addition the use of capital receipts from asset maximisation, will be a key feature of the investment strategy. The recent reports to Cabinet and Council illustrate this and an updated Capital Strategy is included within the reports presented to members as part of this budget package

2.49 The Council, through its Treasury Management Strategy, uses a range of prudential indicators to manage and control the impact of these capital investment decisions. This will ensure that the risk and debt profile of the Council is appropriate based upon its financial standing and performance and that repayment is affordable.

External Advice

2.50 The Council is supported in its financial activities by its External Auditor, Ernst and Young LLP and its Treasury Management Advisors, Arlingclose. Any material changes to Council policy, budget decisions or capital investment proposals will be undertaken in consultation with these organisations.

3. RESERVES STRATEGY 2021/22

3.1 The Council holds a range of reserves that it uses and holds for different purposes. This report considers each in turn.

General Fund

3.2 The General Fund Reserve is the Council's primary reserve. It exists to provide the Council with a contingency against unexpected events which could otherwise undermine the Council's sound financial standing. The fund should only be utilised to address short-term issues and should not be relied upon to finance ongoing budget deficits. Where it is used in the short term then this should be part of a plan to return it to a long-term equilibrium position in the medium term.

3.3 Determining the level of General Fund Reserve forms a key part of the Council's medium-term financial strategy and will be informed by an assessment of the risks presented by:

- State of the economy (and its impact on Council costs / funding)

- Knowledge of future changes to the Council's responsibilities and funding allocations

- Specific risks relating to the changes in Council services

3.4 A historical benchmark minimum level that is used by a number of authorities is for the General Fund Reserve to be maintained at around 5% of the Council's net budget. This is below the level that has been maintained by the Council in recent years, as the CIPFA resilience index has identified. As a result, Sefton has a level of General Fund reserves that would place it at a high level of risk in terms of financial stress. The minimum reserve level of 5.0% that would be appropriate for the Council is referred to as the normal risk accepted. However, this rate will not take account of variable factors such as the economic climate, government policy and local factors, nor importantly the current pandemic. Therefore, alongside the normal risk the Council also needs to make an assessment of abnormal risks it may need to fund. These include the following elements.

National Considerations

3.5 **Impact of economic climate on Council costs** - the current climate, especially as a result of the pandemic, will prove challenging in 2021/22 with the potential for business closures, lower than normal income levels from both council tax and sales, fees and charges and a shortage of alternative funding sources from partners. As Council funding is now more dependent on the performance of the local business sector and the raising of council tax it is more exposed to the consequences of national and local economic conditions.

3.6 **Anticipated reductions in Government funding** – the level of funding that it is anticipated that the Council will receive in 2021/22 reflects the one-year spending review announced in November 2020 and the Provisional Local Government Finance settlement received on 17 December 2020. In addition, the Council has been notified of other grant allocations for 2021/22. These funding levels are included in the Budget Plan. At this stage, it is not expected that there will be any impact on funding available in 2021/22 as a result of Brexit, however this will inevitably impact upon future years' allocations.

Local Considerations

3.7 **Planned changes in service delivery methods / contracts** – The Council continues to review the way in which it delivers services in order to ensure best practice and value for money for its residents. In addition, the Framework for Change 2020 programme will involve significant transformational change as to how services are provided. This will result in changes to working practices, commissioning relationships and governance arrangements. As these become embedded within the organisation this should reduce the risk to the organisation however there is still a degree of risk that needs to be allowed for.

3.8 **Impact of Rising Demand for Services** – The Council continues to face increasing demand for its services. This was the case pre pandemic and this has increased further on the rise of COVID-19. Investment has been included in the 2021/22 budget, however as discussed in this report there is still significant risk that needs to be allowed for particularly in respect of Children's Social Care and Education Excellence. Based on the financial position as at the end of December 2020, these budgets will be re-aligned for 2021/22, however as discussed in this report there is still significant risk that needs to be allowed for.

3.9 **Legal Challenges** – The Council from time to time make decisions (policy and operational) that could be subject to challenge or appeal from affected bodies. It is therefore prudent for the Council to have some capacity to safeguard against such challenges.

Budget Setting Assumptions

3.10 **Sensitivity of budget assumptions** - The Council's budgets for 2021/22 are underpinned by a number of assumptions regarding the prevailing rates of inflation, interest earned and cost growth. While these estimates are believed to be prudent some costs are outside the Council's control, particularly in the medium term.

3.11 **Significant earmarked reserves** – The Council maintains funding in earmarked reserves. These include reserves for future potential insurance claims and funding that Members have set aside for specific purposes. The presence of these reserves reduces the scale of risk the General Fund has to guard against. It should be noted that these reserves have been set up for specific purposes and as such their use will be in accordance with that approved. These reserves are reviewed as part of each budget cycle and the annual closure of accounts process.

Management / Member Actions

3.12 **Clear Corporate / Member messages** - The Council and its senior management have very clear expectations regarding the delivery of a 'balanced and sustainable budget' and have instigated appropriate monitoring and reporting processes to ensure any emerging pressures are promptly addressed. This reduces the risk to be managed through the General Fund.

3.13 **Three Year Medium Term Financial Plan and One-year budget** – Given the funding uncertainty facing the Council and the increased demand for Council services the Council has developed a three-year Medium-Term Financial Plan and a Framework for Change 2020 programme. These plans will allow the Council to develop proposals that will meet the budget requirement when the reform of local government finance and the comprehensive spending review have been completed. Due to the pandemic however the assumptions that are contained in each of these documents will need to be the subject of continual update throughout the year.

3.14 A summary of the adjustments made for the above factors is set out in the table below.

Factors Considered	Risk Impact % of net budget	Impact on General Fund Balances
		£m
Normal Risk Level (minimum level)	**5.0%**	**11.0**
National Considerations		
Impact of economic climate (inc pandemic) on Council costs and Collection Fund income	2.5%	5.5
Anticipated reductions in Government Funding	0.5%	1.1
Local Considerations		
Delivery of planned changes in service delivery methods/contracts	0.5%	1.1
Costs at risk from potential legal challenges	0.5%	1.1
Rising demand for services	2.0%	4.4
Budget Setting Assumptions		
Sensitivity of budget assumptions	1.0%	2.2
Earmarked balances	-2.5%	-5.5
Management / Member Actions		
Clear corporate / Member messages	-1.5%	-3.3
Three-year MTFP and Framework for Change 2020	-1.0%	-2.2
Total Abnormal Risk	**2.0%**	**4.4**
Total Risk	**7.0%**	**15.4**

3.15 This shows that a risk adjusted assessment of the required level for the General Fund in 2020/21 should be in the region of £15.4m. A range of £1.0m is advised around this figure so a General Fund reserve between £14.4m and £16.4m would be considered prudent. This represents 7.0% of the Councils net budget. This represents an increase compared to the position reported last year however this reflects the significant increased risk and cost pressure that could materialise in both this year and in future years from a reduction in council tax and business rates income and the increased demand for services arising from the pandemic as discussed in this report.

3.16 The Council started 2020/21 with a General Fund balance of £6.984m and due to the low-level Members approved a strategy to increase the level of General Fund reserves by £1.5m each year. This commenced in 2020/21 and assuming no calls on this reserve during the year will result in a balance at year end of £8.484m

It can be seen that this level is someway short of the risk adjusted level required for the Council.

3.17 The further allocation in the budget report (subject to the 2020/21 outturn) will see the reserve rise to £9.984m during 2021/22. As a result of this it is essential that each year a balanced outturn is delivered so that there is no requirement to call on this balance as it remains below both the normal risk and total adjusted risk levels for the Council.

Earmarked Reserves

3.18 Unlike the General Fund, earmarked reserves are held for a specific purpose. These purposes may be determined by the Council to coincide with its policy objectives, dictated by statute (e.g. schools funding) or agreed with partners who also contribute to the reserve.

3.19 Where the decision to set up a reserve rests with the Council, consideration needs to be given as to the benefits of holding an earmarked balance. The Council holds earmarked reserves separately from its General Fund to meet a number of distinct aims.

• Strategic Reserves - In accordance with policy decisions, funding may be set aside and ringfenced for the benefit of a particular service or project ensuring that there is funding to take the activity forward as planned. This can also include general support to the budget.

• Committed Reserves – Where the Council makes a decision that commits it to incurring additional costs in the future, it can set aside the funding necessary to meet that cost when it arises, ensuring that the costs of current decisions are recognised at the point that decisions are made and do not become a burden on future budgets.

• Uncommitted Reserves – Where the Council is aware of an issue that may incur additional costs in the future, it can set aside the funding necessary to meet that cost if and when it arises, ensuring that the potential costs of these issues do not become a burden on future budgets.

• Restricted Reserves – The Council sometimes receives contributions from partners or has to set aside its own funding in a way that restricts where it can be spent in the future. These reserves can only be used to support eligible expenditure which may be restricted to a particular place, activity or service.

• Temporary Reserves – These are used to phase out timing differences between when the Council (or another body) funds expenditure and when it is incurred.

3.20 The current and anticipated balances on each of these classes of earmarked reserve are shown below.

	April 2020	Estimated March 2021
	£m	**£m**
Earmarked Reserves		
- Strategic Reserves	12.318	9.094
- Committed Reserves	11.870	11.870
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	1.469	1.630
- Temporary Reserves	14.616	8.761
	40.273	**31.355**
School Earmarked Reserves	-4.385	-7.951
Total Earmarked Reserves per Statement of Accounts	**35.888**	**23.404**

3.21 The benefits of holding earmarked reserves needs to be weighed against the costs of doing so. Every discretionary earmarked reserve ties up funds that may otherwise be available to fund the core activities of the Council. Each reserve also carries with it an administrative overhead as they will need to be maintained, monitored and reported on.

3.22 Of the 40 existing earmarked reserves (excluding unutilised grants and contributions), 28 are to be retained over the medium term or beyond. Each of these reserves will be subject to a regular monitoring process to ensure they remain relevant and are achieving their stated objectives. The remaining reserves held are expected to have fulfilled their purpose within the planning period and will be closed at that point. Any surplus funding on these reserves on completion of proposed activities will be appropriated to the General Fund or returned to the original funding source.

3.23 It is important that the Council continues to monitor these reserves throughout the year and when required establishes reserves for specific activities or releases funding that is no longer required to be held. This needs to reflect the diverse nature of activity that the Council is engaged in, including commercial activity.

3.25 Within this three-year MTFP period funding has been allocated to support the cost of school closures, with a balance of £1m being available subject to this budget being approved. The financial position of secondary schools within Sefton, due to the lack of funding made available from central government and number of pupils, has seen an anticipation that four out of six will be in a deficit position in 2021/22. This presents a real financial risk to the Council in that in the event of closure or a move to academy status the Council would need to meet the cost of any deficit held at that point in time. In order to protect its position, the Council needs to approve a licensed deficit that must be applied for by the school. Officers have worked extensively with these schools over the last six months and have advised that licensed deficits will only be approved where a school can demonstrate it will set a balanced budget within 12 months and can then repay substantial elements of any deficit thereafter.

3.26 Similarly, the Council currently has a deficit within its High Needs Budget. This is estimated to be £9.0m at the end of 2021/22 and is forecast to rise again by a further £1.5m in 2021/22. As this is a budget funded by the Dedicated Schools Grant, this deficit will be held as an earmarked reserve. The clear guidance from both MHCLG and DFEE is that the council cannot use its general fund to meet this cost or balance and the Council is awaiting further guidance from CIPFA and the DfEE on how this balance should be treated as this situation is one that is common within the sector. That said such a significant balance needs to be addressed, with allocations being made within the budget available and the deficit repaid over time. This is the clear expectation of central government at this time and failure to do this will compromise financial sustainability and the cash flow of the council. A report was presented to Cabinet in February 2021 outlining the current position on the high needs budget and the key workstreams that will commence that will improve both the support to those in need but also the financial position of the council. It is essential that these activities continue at pace with reporting on progress and the financial position being reported to cabinet each quarter.

Capital Reserves

Capital Receipts Reserve

3.27 The Council retains a capital receipts reserve to finance future capital expenditure. This reserve is financed by capital receipts set aside on the disposal of land, buildings and other assets as well as well as amounts received from One Vision Housing relating to the Council's share of Right to Buy receipts.

3.28 The nature of this reserve determines that the balance will vary with the timing of the receipts and the Council's capital schemes that the receipts are being used to fund. The balance at the end of 2020/21 is estimated to be in the region of **£2.9m**.

Unapplied Capital Grants and Contributions Reserve

3.29 The value of this reserve relates to capital grants and contributions received that have yet to be utilised to fund ongoing capital schemes. The balance at the end of 2020/21 is estimated to be **£17.8m**. This funding will be utilised in future years. However, additional grants and contributions will be received that won't be fully utilised in the years they are received so will remain in the Reserve until utilised.

School Reserves

3.30 The main element of this reserve is individual carry forward balances of schools' unspent budgets. It is the Council's responsibility to hold these balances and ensure they are ring-fenced for use against school activities. These balances are expected to gradually reduce over this planning period as the schools utilise their accumulated surpluses to support their activities.

4. CONCLUSION

4.1 As a result of considering the issues contained within this report, it is the view that the budget proposed is a robust budget package and the opinion provided is in accordance with Section 25 of the Local Government Act 2003.

Report to:	Cabinet Council	**Date of Meeting:**	11 February 2021 4 March 2021
Subject:	Revenue and Capital Budget Plan 2021/22 – 2024/25 and Council Tax 2021/22		
Report of:	Chief Executive and Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	(All Wards);
Portfolio:	Leader of the Council		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:
This report will provide Cabinet and Council with:

- An assessment of the Council's current financial position and approach to the 2021/22 Budget Plan and preparation for the three-year budget period 2022/23 to 2024/25;
- An update on the Government's announcement of resources that are available to the Council for 2021/22;
- The Council's current financial position and the assumptions built into the Medium-Term Financial Plan;
- The proposed Budget for 2021/22; and,
- The proposed Capital Programme for 2021/22.

The report sets out the financial strategy of the Council and the national and local financial context within which it is operating. The Council has a statutory requirement to remain financially sustainable and to balance its budget every year.

The Council's Framework for Change Programme is a comprehensive and ambitious programme that seeks to support the delivery of the Council's core purpose. As would be expected with a programme of this size and complexity that spans a number of financial years, the detailed proposals have been and will continue to be the subject of change as they are developed and ultimately implemented.

Agenda Item 8

Recommendation(s):
Cabinet is recommended to:

1. Note the update of the Medium-Term Financial Plan for the period 2021/22 to 2024/25;

2. Recommend to Council the Budget Plan for 2021/22, including the Revenue Budget, allocation of specific grants (section 13), and Capital Programme (Appendix C), and authorise officers to undertake the necessary actions to implement the recommendations;

3. Note the Schools' Forum decisions on the Dedicated Schools Grant and Individual School Budgets (Section 12); and,

4. Approve the commencement / continuation of all appropriate activity within Framework for Change 2020, as detailed in the report, including, for example, consultation with employees and engagement with partners and contractual and policy changes.

Council is recommended to:

Budget 2021/22 and Medium-Term Financial Plan from 2022/23 to 2024/25

1. Note the update of the Medium-Term Financial Plan for the period 2021/22 to 2024/25;

2. Approve the Revenue Budget for 2021/22 and authorise officers to undertake all of the necessary actions to implement the budget changes and proposals as detailed within the report;

3. Approve the continuation of the Framework for Change 2020 Programme (as described in Section 3) and agree to the commencement of all appropriate activity as detailed, including for example, consultation with employees and engagement with partners and contractual changes as the programme develops;

4. Approve current levels of trade union facility time and associated arrangements for the whole period of the budget plan for 2021/22 – 2024/25;

5. Note that officers will comply with agreed HR policies and procedures including relevant consultation with Trade Unions and reports to the Cabinet Member (Regulatory, Compliance & Corporate Services) as required;

6. Note the Schools' Forum decisions on the Dedicated Schools Grant and Individual School Budgets (Section 12);

7. Approve the allocation of specific grants as detailed in the report (Section 13);

8. Subject to the recommendations above, approve the overall Council Tax resolution for 2021/22 including Police, Fire, Mayoral and Parish Precepts; and,

Capital Programme 2021/22 to 2022/23

1. Approve a supplementary capital estimate of £12.750m for the Street Lighting Asset Project detailed in Section 17;
2. Approve for inclusion within the Capital Programme the other Capital schemes detailed in section 17 and the full list of other projects in Appendix C.

Reasons for the Recommendation(s):

The recommendations in this report provide the basis on which the Budget Plan will be balanced for the financial year 2021/22 and will ensure that the Council's statutory obligations are met. In addition, it begins the planning for the financial strategy for the following three years to give the Council sufficient time to identify specific proposals to deliver financial sustainability over that period.

Alternative Options Considered and Rejected: (including any Risk Implications)

The Council is legally required to set a balanced budget each year and this report has taken due consideration of all financial issues in its development. No additional options are available for inclusion.

What will it cost and how will it be financed?

(A) Revenue Costs

All financial implications are reflected within the report

(B) Capital Costs

All financial implications are reflected within the report

Implications of the Proposals:

The following implications of this proposal have been considered and where there are specific implications, these are set out as follows:

Resource Implications (Financial, IT, Staffing and Assets):

The proposals / projects within the budget plan may have a potential impact upon employees and the potential for both voluntary and compulsory redundancies. In such circumstances it will be necessary for the Council to comply with the duty to consult with recognised Trade Unions and employees and to complete as necessary a notification under Section 188 of the Trade Union Labour Relations (Consolidation) Act 1992. This notification under Section 188 is dependent on numbers and other ongoing activity.

In a similar way to a notification under Section 188, as above Form HR1 notifying of potential redundancies to the Department of Business Innovation and Skills may be necessary. Full consultation will take place with the Trade Unions and employees on the matters contained within the Budget Plan.

The proposals / projects that are made within the budget plan will have an impact on physical assets, this will be assessed during the implementation of approved changes.

The proposals / projects within the budget plan will also have an impact on ICT, this will be assessed during the implementation of approved changes.
Legal Implications: There is a statutory requirement to set a robust budget for the forthcoming financial year on or before 10 March 2021. In the course of considering each of the individual proposals / projects, detailed consideration should also be given to the legal, human rights and equality implications. Such consideration will also need to be evidenced to ensure that the Council's decision-making processes are transparent.
Equality Implications: As the Council puts actions into place to set a balanced and sustainable budget there is a need to be clear and precise about processes and to assess the impact of potential change options, identifying any risks and mitigating these where possible. Equality impact assessments, including any feedback from consultation or engagement where appropriate, will be made available to Members when final recommendations on individual projects are presented for a decision. This will ensure that Members make decisions with due regard to the impact of the recommendations being presented and in compliance with the Equality Act 2010.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: Council decisions since 2010 have focused on the priority given to protecting our most vulnerable people. The Budget Plan activity continues to seek to protect the most vulnerable within available resources.
Facilitate confident and resilient communities: The Budget Plan demonstrates a clear commitment to early intervention and prevention and working with partners, communities and local businesses to reduce the reliance on the public sector.
Commission, broker and provide core services: The Budget Plan recognises that where it is necessary to do so, the Council will continue to be a provider of those core services that the community expects to see delivered but will use new service delivery models and new forms of partnership.
Place – leadership and influencer: Previous Budget Plans have seen the Council demonstrate strong and effective leadership building on its proven track record of engagement, consultation, listening and considering feedback in the decision-making process. The Council continues to work with partners towards common goals, moving away from traditional ways of working focused around delivering services and is demonstrating a greater role in influencing, shaping, enabling and building community capacity.
Drivers of change and reform: The Budget Plan demonstrates the Council playing a key role in leading and driving change and reform to improve outcomes for Sefton residents and continuously improve

the Borough.
Facilitate sustainable economic prosperity: The Budget Plan clearly articulates the Council's approach to investing in order to achieve financial sustainability and the ambitions of Sefton 2030.
Greater income for social investment: The Budget Plan recognises the Council's commitment to developing a commercial nature, looking at what it can do either by itself or with others to generate income and profit that can be reinvested into delivering social purpose.
Cleaner Greener: The Budget Plan recognises the Council's commitment to work with others to maintain Sefton's natural beauty and ensure that its many assets provide a contribution to Sefton's economy, people's wellbeing and the achievement of the 2030 Vision.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

Regular and ongoing consultations have taken place between the Chief Executive, Executive Directors and Heads of Service, and will continue to do so.

The Executive Director of Corporate Resources and Customer Services (FD6289/21) is the joint author of the report and the Chief Legal and Democratic Officer (LD4490/21) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

In recent years the Council has carried out extensive consultation with the community and has a proven track record of engagement, consultation, listening and considering feedback in the budget setting process. Engagement and consultation will continue over the budget plan period and standard Council procedures will be observed in the instances where we are required to inform the public.

The budget proposals contained within this report provide a basis for setting the budget for 2021/22. It is a legal requirement to set a balanced budget and ensure the budget plan is robust. As such, any changes to the proposals contained within this report would need to ensure this requirement is still met.

Implementation Date for the Decision

Officers will be authorised to implement all decisions within this report immediately following Council on 4 March 2021.

Contact Officer:	Dwayne Johnson and Stephan Van Arendsen
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Appendices:

The following appendices are attached to this report:

A. Individual School Budgets 2021/22

B. Draft Council Budget Summary 2021/22

C. Capital Programme 2021/22 – 2022/23

Background Papers:

Financial Management 2020/21 to 2023/24 and Framework for Change 2020 – Medium Term Financial Plan 2021/22 to 2023/24– Report to Cabinet – 1 October 2020

1. Introduction

1.1 This report provides Members with an update on the overall financial position of the Council. It refreshes the Medium-Term Financial Plan for 2021/22 which is the first year of the Council's new Financial Strategy period. In addition, it provides an initial view on the likely funding position that the Council will face from 2022/23 to 2024/25. In doing so the report presents the proposed budget for 2021/22.

1.2 In addition, Individual School Budgets and the Capital Programme require approval.

2. The National Context and financial environment

2.1. From 2010/11 the Government implemented a decade long programme of austerity. The impact of these central government funding reductions on local government since 2010 is stark and has been widely reported. The legacy of funding reductions has severely impacted on the financial sustainability of local authorities and led to significant challenges facing councils over the short and medium term.

2.2. Whilst funding reduced significantly, the pressure on demand led services continued to grow with large increases in the number of Looked After Children as well as people over 65 in need of care. This has meant that expenditure on other services has continued to reduce.

2.3. Similarly, the High Needs Budget (part of the Dedicated Schools Grant) provides funding for children and young people with special educational needs and disabilities (SEND) and local authorities across the country continue to experience significant funding shortfalls for this group of children and young people.

2.4. In light of this position many local authorities are reporting that they are coming under an increasing level of financial stress, with an increased use of one-off resources being used and the utilisation of reserves to bridge budget shortfalls, thus compromising their financial sustainability. The much-publicised situation at a number of authorities outlines the consequences of over relying on the use of reserves, non-delivery of savings proposals to mitigate funding reductions and a failure to effectively plan and enact robust and disciplined financial control.

2.5. This inherent position has been compounded in 2020/21 with the COVID-19 pandemic having had a massive impact on local authority finances. Although significant amounts of funding have been made available by the government to help councils respond to the pandemic and mitigate the income losses they have incurred, it has only added to the level of financial stress local authorities are experiencing. These pressures include significant losses of council tax, business rates and income from sales, fees and charges as well as increases on costs for Looked After Children and other demand led services. This experience in 2020/21 will continue into 2021/22 and beyond and is the greatest threat to the financial sustainability of local authorities and the ability to meet the requirements of local residents.

2.6. In the last three years there has been some one-off funding allocated by Central Government to councils in addition to core funding to assist with the pressures being experienced across the sector. These short-term funding initiatives, whilst welcome, do not meet the spending pressures that local authorities, including Sefton, are experiencing; nor do they make it possible for councils to effectively plan over the short and medium term. Consequently, despite this one-off funding, local government continues to be underfunded, with key services that affect the most vulnerable in society not being sustainably supported.

2.7. The Spending Review 2020, published on 25 November 2020, contained a number of announcements relating to local government. The Provisional Local Government Finance Settlement for 2021/22, announced on 17 December 2020, gave more detail on the impact of these announcements on Sefton (see paragraphs 4.4 to 4.19). However, as a result of the pandemic the Spending Review only covered 2021/22 and a further Spending Review has been announced for 2021 to cover 2022/23 to 2024/25. In addition, there were two significant changes to local government funding that were expected to be introduced from April 2021 relating to a Fair Funding Review and the introduction of 75% Business Rates Retention for all local authorities. The fundamental review of business rates has now been postponed until 2022/23 and the Fair Funding Review has been delayed until 2022/23 at the earliest. If introduced in 2022/23 they will therefore have an impact on the Medium-Term Financial Plan. As with previous years these are explained below for Members consideration:

Fair Funding Review:

2.8. The Government is currently undertaking a funding review to determine the means of allocating funding across local authorities. Funding allocations for local authorities, as determined in the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind the relative needs assessment was introduced over ten years ago, and data used in the formulae has not been updated since the introduction of the 50% business rates retention system in 2013/14.

2.9. The Government wants to introduce a simpler and more transparent methodology reflecting a small number of cost drivers. One key cost driver, as previously, will be population. Sefton's relative population has declined compared to England as a whole since the methodology was last updated. Therefore, this element is likely to have a negative impact on the Council's overall funding position.

2.10. The Government has continued to consult with local authorities as well as be influenced by discussions within a number of joint working groups between the Ministry of Housing, Communities and Local Government and the Local Government Association. Sefton has, and will continue to, respond to any consultations to try to influence the final methodology.

Business Rates Retention:

2.11. Sefton's Business Rates baseline was last set in 2013/14. Sefton's retained rates income is forecast to be above its funding baseline for 2021/22, so the Council is expecting to achieve a gain from Business Rate retention. As part of the Liverpool City Region 100% Business Rates Pilot Agreement the Council has retained a 99% share of growth in Business Rates since April 2017.

2.12. As part of the Fair Funding Review, the Business Rates baseline will be re-assessed and changed. Therefore, the benefit of these gains is expected to be lost going forward.

2.13. Also, nationally the proportion of Business Rates retained by local authorities will increase from 50% to 75%. It is expected that pilot authorities will also move to 75% retention so a lower proportion (74%) of any future growth will be retained by the Council.

2.14. As stated, these two changes, in addition to the comprehensive Spending Review, have now been deferred to April 2022 at the earliest. Whilst this will allow time for the remaining decisions over the design of the reforms to be made, it means more uncertainty about the future funding arrangements for the Council beyond 2021/22. In addition, the eagerly awaited publication of the Adult Social Care Green Paper, has still not materialised and there is no indication of when it will be.

2.15. This scenario means that medium term financial planning beyond 2021/22 is incredibly difficult and does not support sustainable financial management nor service planning. The recent financial settlement provides the Council of confirmation of the funding that will be available in the next financial year, but due to the apparent one off nature of this funding (including that to support the Council's continued response to the pandemic and the financial impact on key services and reductions in income), no visibility or understanding of the changes that will come through the spending review, fair funding review or review of business rates retention and the impact of COVID-19 and Brexit on the nation's economy, developing a reasonable estimate of the Council's financial envelope for the latter three years of the MTFP isn't possible.

2.16. As previously referenced, the implications of this on the Council cannot be underestimated. The Council has an excellent record with regard to financial management over the last 11 years that has required it to meet a budget shortfall of £233m. This has been predicated on medium term financial planning and setting multi-year budgets that enable effective planning of service delivery and the inevitable transformation activity. The approach by central government to local government finances due to the national political agenda, COVID-19, Brexit and the lack of progress on key financial reforms leaves local government and Sefton in a vulnerable position as this medium-term planning is not possible.

2.17. This position is reflected in the Chancellor of the Exchequer stating publicly in September 2019 that a new 'economic decade' is now upon us and that services will be resourced appropriately on the back of a new fiscal agenda and set of rules. On face value this should be encouraging for local government with the end of the decade long austerity programme and the potential for real term increases to government funding being experienced. This view however is tempered by a number of commentators stating that the economic forecast under a range of scenarios and taking into account the impact of COVID-19 and Brexit, will result in less scope for investment in public services and the likelihood that further cuts to funding are inevitable. This only further increases the uncertainty.

2.18. As a result of these factors, it will be important that the Council continues to engage in the reforms of local government finance both individually and as part of the Liverpool City Region. This will help the assumptions in the MTFP to be continually refined over the next 12 months and inform the budget proposals that will come through between 2022/23 and 2024/25.

3. Sefton's local factors and approach to sustainable financial planning

3.1. Sefton, like many local authorities, has found the last decade challenging in terms of the national funding conditions outlined above and the significant and growing pressures across a range of Council services. The Council has a proven track record of effectively managing its finances, meeting its financial objectives and delivering financial sustainability, however this is becoming increasingly difficult. .

3.2. Central government policy has, unsurprisingly, seriously challenged the ability of the Council to provide essential services to the community and its most vulnerable residents. Demand for adults and children's services has rapidly increased over recent years as reflected in the National Audit Office study. No sustainable additional resource has been provided by Government, although there has been some one-off grant to help to mitigate some of the cuts to core funding. Service budgets have seen significant reductions and as a result there have been major changes in service provision; however, the Council has continually strived to ensure that essential services that safeguard the most vulnerable residents are protected and prioritised in addition to ensuring that financial sustainability is maintained.

3.3. This position has been compounded as a result of COVID 19, with an exponential increase in demand for services, loss of income from fees and charges and significant reductions from business rates and council tax receipts also being experienced. Whilst the Council has navigated its way through the last 10 years of spending reductions, the immediate impact of the pandemic will require another fundamental review of the Council's income levels and how these support the delivery of services whilst ensuring financial sustainability is maintained. This is a scenario facing all local authorities and the need for continued and long-term central government support on each of these aspects is clear.

Sefton Council 2030 Vision- Framework for Change 2020 and delivering Financial Sustainability

3.4. The Budget Report for 2020/21 highlighted that the Framework for Change Programme 2017 had allowed the Council to support the delivery of the Borough's 2030 Vision and its own objectives as set out in its Core Purpose, as well as successfully enabling the Council to set and deliver balanced budgets in each of the three years of the budget plan period 2017/18 to 2019/20.

3.5. In moving into the next three-year budget cycle of 2020/21 to 2022/23, it was proposed that the Framework for Change programme evolved further and continued to be used as the Council's delivery vehicle in order support the delivery of the 2030 vision, the Core Purpose and to deliver financial sustainability. Budget Council in February 2020 therefore approved the Framework for Change Programme 2020.

3.6. The previous Framework for Change programme was built on four workstreams / pillars and these form the cornerstone of the 2020 Programme, namely Public Sector Reform, Growth and Strategic Investment.

Public Sector Reform

3.7. Within the new Public Sector Reform pillar, two projects were proposed. These were: -

- Council of 2023; and
- Demand Management

Council of 2023

3.8. The project takes account of the successful work to date in delivering the partnership 2030 Vision and the Council's Core Purpose. This will further enable the Council to define what it will do and how (within the budget available), what outcomes are expected, how these will be measured, what resources will be allocated and where it will focus its influence. This will ensure a clear correlation between the policy objectives of the Council and its budget / resource allocation process.

3.9. As such this project will ensure that: -

- All of the Councils resources are aligned and prioritised in order to support the delivery of the 2030 Vision and Core Purpose;
- The Council delivers a balanced and sustainable budget;
- The Council has the required leadership, management and workforce capability and capacity in order to deliver the Core Purpose and required programme of change;
- New ways of working are developed to improve outcomes for local people, deliver priority outcomes and improve efficiency and effectiveness;
- The Council builds on the One Council ethos in order to embed its defined culture, values and behaviours that are required to deliver the 2030 Vision and Core Purpose; and
- The Council will work in partnership with key stakeholders to deliver the 2030 Vision

3.10. Specifically, this project has four workstreams, the detail of which was provided in the 2021/22 Budget Report.

Workstream 1- Service Inputs and New Operating models

Workstream 2- New Ways of Working and Taking Advantage of Technology

Workstream 3- Workforce Development

Workstream 4- Organisation design across the Council

Demand Management

3.11. Demand led budgets across the Council (for example Adult Social Care, Children's Social Care, Public Health, Home to School Transport) amount to over £100m of the Council's budget. The 2020/21 budget included additional contributions to these areas of around £6m which reflects an ever-increasing demand. Significant increases in these budgets are also proposed for 2021/22.

3.12. Due to the size, complexity and demand for these services, a continual review must be undertaken to ensure that the cost base for these services reduces, an early intervention and prevention programme is embedded, and residents are supported in 'moving down the system' so as to reduce the demand for Council services and particularly those at the acute end.

3.13. The move to locality-based working with an emphasis on early intervention and prevention aims to reduce demand by identifying need much earlier and working with partners to build resilience and to require public services less. This work is starting to be embedded within communities and is a success story from Framework for Change 2017. This will be built on in the next few years and will lead to improved outcomes and financial benefits in future years.

3.14. To develop the demand management programme within the next few years, and reduce the demand-led budgets previously set out, requires a focus on the next cohort of service users that may require Council services and to look at innovative ways to support resilience using a partnership approach. This will require a detailed focus on why people are entering services and what can be done to prevent this in the future. Where a service is provided the Council needs to ensure this is achieving value for money and promoting future resilience.

3.15. This will be done through:

- Safely and sustainably managing and reducing demand for Council services over the next three years;
- Being clear about what the Council defines as "demand led" systems;
- Focussing on:
  - Early Intervention and Prevention
  - The need and review of activity
  - Strong market engagement, development and management
  - Eligibility policies.
- Developing links and alignment with other elements of programme, with a real focus on 'community and personal resilience' and reducing the need for Council services;
- Developing a comprehensive performance management framework that includes a comparison with statistical partners and neighbours; and
- Ensuring that the Council considers the connectivity with partner agencies and their impact on our system, e.g. health.

3.16. This will be a dedicated project across a number of services with immediate, short, medium and long term workstreams. These are:

Workstream 1- Localities - further embedding early intervention and prevention

Workstream 2- Children's Social Care – Delivering the Children's Plan

Workstream 3- Adults' Social Care

Workstream 4- Streetscene

Workstream 5- Education Excellence

Workstream 6- Special Educational Needs and Disability (SEND)

Economic Growth and Strategic Investment

3.17. At the start of the Framework for Change 2017 programme it was acknowledged that during the three-year period work would be undertaken in order to develop the Growth and Strategic Investment pillars in order to get to a position whereby these would move from inception to delivery stage.

3.18. This programme will directly support economic growth and development within the Borough, creating new jobs and businesses and enhanced productivity. It will also directly benefit the Council by reducing / removing subsidies, creating new net revenue streams and Council Tax and Business Rates receipts.

3.19. The Programme will be delivered within a set of themes which include:

- Town Centre Regeneration for example through the potential Southport Town deal;
- Large Employment Sites;
- Strategic Transport Schemes;
- Coast Access Gateways;
- Industry sector development;
- Housing;
- Employment and Skills; and
- Investment

3.20. The Programme will also include "Invest to Save" schemes whereby capital investment directly reduces or removes a service cost to the Council.

3.21. The Programme is underpinned by a number of strategic initiatives which include:

- The Asset Management and Disposal Policy and the continuation of the asset maximisation project from Framework for Change 2017;
- Strategies such as the Sefton Economic Assessment and Strategy and the Sefton Coast Plan;
- LCR CA Single Investment Fund;
- The Liverpool City Region Local Industrial Strategy

4. Budget Plan 2021/22 – 2024/25

4.1 As discussed previously within the report, 2021/22 is the first year of the Council's new financial strategy period. Cabinet, on 1 October 2020, approved an updated Medium-Term Financial Plan (MTFP) for the period 2021/22 – 2023/24, including the assumptions made. It is now proposed to extend the financial strategy period to 2024/25 to align with the expected government three-year Comprehensive Spending Review which will set departmental spending limits for 2022/23 to 2024/25.

4.2 As part of this budget setting cycle, each key element of the MTFP has been reviewed, namely: -

- The implications of the Provisional Local Government Finance Settlement for 2021/22;
- All MTFP assumptions including existing service budget pressures; and,
- Non-recurring savings.

4.3 In addition, the impact of COVID-19 on the Council's budget for 2021/22 are significant and have resulted in this year's budget being the most technical it has been required to set. The impact of COVID-19 on the Council's budget are therefore considered separately in section 9.

4.4 The following sections of the report consider the Council's normal budget and detail each element of the MTFP in turn.

Local Government Finance Settlement

4.5 In approaching and updating the Council's MTFP, a key component each year is the financial settlement that is made by the Secretary of State. In reviewing this, there are three areas that the Council is particularly interested in; namely:

- Confirmation or otherwise of the level of financial support that will be received by the Council;
- To what extent any solutions are offered by central government to specific issues that affect not only Sefton but all local authorities e.g. funding for the increased costs associated with Adults and Children's Social Care; and,
- What opportunities are available to local authorities to raise additional income.

4.6 In addition, for 2021/22 the Council needs to consider the support being made by the government to support the financial pressures resulting from the ongoing impact of COVID-19. The announcements relating to this are considered in section 9.

4.7 The Provisional Local Government Finance Settlement for 2021/22 was announced on 17 December 2020. This confirmed a number of funding announcements made in the 2020 Spending Review on 25 November 2020, and these are detailed from paragraph 4.7.

4.8 As previously mentioned, this Settlement is for one year only, and as such makes it extremely difficult to forecast the funding the Council is likely to receive in 2022/23 to 2024/25.

Social Care Grants

4.9 In 2020/21, the Government provided £1,410m of Social Care Grant funding which was distributed using the Adult Social Care Relative Needs Formula. Sefton's allocation was £9.315m. As outlined in paragraph 2.6, it was unknown whether this represented short-term additional funding. The Spending Review and subsequent financial settlement have confirmed that this funding would continue to be paid in 2021/22.

4.10 The Spending Review also announced that an additional £300m of Social Care Grant would be paid to local authorities in 2021/22. Of this, the Government proposes to distribute £60m using the Adult Social Care Relative Needs Formula, with the remaining £240m being distributed on a different basis aimed at providing more funding to those authorities with lower council tax bases who cannot raise as much through the Adult Social Care Precept. Sefton's allocation is **£2.505m**.

4.11 In addition, local authorities have been given the power to raise Council Tax by a further 3% on top of the core principle as an Adult Social Care Precept. The Government expect that local authorities will use this power in full, having announced that this will raise a further £700m nationally as part of the £1,000m funding announced as being available for social care. This is discussed further in section 10.

Lower Tier Services Grant

4.12 The Government announced a new unringfenced Lower Tier Services Grant in 2021/22, which will allocate £111m to local authorities with responsibility for lower tier services (for example, homelessness, planning, recycling and refuse collection, and leisure services). Sefton's allocation is **£0.430m**. It is unclear whether this grant is permanent or temporary funding.

Public Health Grant

4.13 The Spending Review didn't announce any additional funding for Public Health through the Public Health Grant. The grant had been increased of £0.993m in 2020/21, although Sefton's grant had previously reduced by nearly £3.600m between 2015/16 and 2019/20. As such there is no change to this budget within this budget plan.

New Homes Bonus

4.14 The Government will continue to make payments of New Homes Bonus in 2021/22. However, as expected, the main grant allocations for 2020/21 will not continue. Therefore, Sefton's allocation will reduce by £0.266m in 2021/22, from £0.421m to £0.155m.

Housing Benefit / Council Tax Admin Subsidy

4.15 In recent years the amount of subsidy received by the Council to help fund the administration costs of Housing Benefits and the Council Tax Reduction Scheme has been reducing year on year. It is anticipated that this reduction will continue in future years with an **estimated** reduction of **£0.100m** per year.

Settlement Funding Assessment / Business Rates Baseline

4.16 To support businesses in the near-term, the government has decided to freeze the business rates multiplier in 2021/22. Local authorities will be fully compensated for this decision through additional Section 31 Grant. It is estimated that this will result in **£0.781m** of additional funding in 2021/22. In addition, the government announced that the Revenue Support Grant will increase by CPI which will result in additional funding of **£0.066m** in 2021/22.

Implications for 2022/23 and 2024/25

4.17 Given the outcome of the Spending Reviews in 2019 and 2020, and the central government narrative around a ‘new economic decade’, it is assumed that nationally there will be no reductions in local government funding between 2022/23 or 2024/25 (although there remains concern over the overall funding that will be available for public services due to the overall fiscal landscape including the ongoing implications of COVID-19). As a result, it is therefore assumed that all grants will continue into future years. However, as mentioned in paragraphs 2.8 to 2.13, there are major reviews of the way local government is financed that could have a significant impact on the funding of the Council and, given Sefton’s relative decline in population, even if the funding envelope for local government is maintained at current levels, the Council may see a reduction in funding of £9.000m over the medium to long-term. It would be hoped that protections are put in place, with the Local Government Association calling for no Council to see a reduction in funding.

4.18 The Council is therefore assuming that funding will not change during the period of the three-year Spending Review 2022/23 – 2024/25, however this estimate will inevitably change. This is the key estimate that will influence the funding available to the Council in future years and as further information becomes available, Members will be updated immediately. In addition to this, and as reflected earlier in this report, the Council will continue to experience the impact of the pandemic on all aspects of its budget. This is reflected in the two most significant budget risks that exist at this time which are in respect of the Children’s Social Care Budget (placements and packages) and the collection fund (i.e. council tax and business rates receipts). These two areas have experienced a dislocation in their budgets in 2020/21 and whilst some support is offered for 2021/22, there will be an impact long after this period. As a result, the Council will need to lobby central government extensively for continued support over the long term for these areas in order that current service levels across the Council and financial sustainability can be maintained.

Schools and High Needs Funding

4.19 Nationally, the schools’ budget rose by £2.6 billion in 2020/21, and will rise by £4.8 billion in 2021/22 and £7.1 billion in 2022/23, compared to 2019/20 funding levels. In addition to this, each year the government will provide almost £1.5 billion of funding to compensate schools for the increased cost of employer pensions contributions.

4.20 In addition, the government provided £700m more in 2020/21 compared to 2019/20 funding levels to support children and young people with special educational needs. This additional funding will continue into 2021/22.

4.21 The funding of Sefton schools and High Needs are discussed further in section 12.

Key MTFP Updated Assumptions

4.22 Within this MTFP, there are a number of key assumptions that will impact upon the funding gap facing the Council in the period 2021/22 to 2024/25 as well as a number of other budget changes. These are set out as follows:

Resources to fund pay awards, increases in the pension future service rate, specific contracts and potential price increases from care providers

4.23 In line with previous MTFPs, the Council makes provision for the estimated costs of annual increases in pay, pensions etc. Provisions for these items total **£5.950m** per year. However, for 2021/22 there will be a reduction in the provision for pay awards (see paragraph 5.4).

Levy Increases

4.24 The Council is required to pay levies to various bodies, the largest two of which are the Liverpool City Region Combined Authority (for Transport) and the Merseyside Recycling and Waste Authority (MRWA). Sefton has received notification of provisional figures for 2021/22 which indicates there will be a **reduction** in levies of **£0.070m** in 2021/222 This excludes £0.969m relating to additional one-off costs incurred by the MRWA due to measures introduced because of COVID-19. The Council will utilise the COVID-19 emergency funding to cover these costs. A provision has been included for the potential costs of increases in these levies in future years (£0.700m per year).

Existing Service Budget Pressures

4.25 The Budget Monitoring reports for 2020/21 presented throughout the year have indicated significant ongoing budget pressures in four service areas:

Service	**Budget Pressure**
	£m
Children's Social Care – Placements & Packages	5.280
Communities – Children with Disabilities / PSR2	1.050
Education Excellence – Home to School Transport	1.100
Locality Services – Security Force	0.350
	7.780

4.26 It is considered prudent to build these costs into the 2021/22 budget as these pressures will continue into future years.

Other Changes

4.27 A number of other changes have been built into the MTFP for 2021/22, including a permanent shortfall on the budget for Council Tax court cost recovery and an increase in the contributions to the Insurance Fund due to an increase in insurance premiums and costs (**£0.535m**).

Non-Recurring Savings / Costs

4.28 A number of items built into the 2020/21 budget were only achievable for a limited period and therefore need to be removed from the 2021/22 budget **(£1.782m** net savings in total in 2021/22). These include:

- Treasury Management savings following the review of policy – reduction of £0.200m in 2021/22 with further reductions of £0.200m in future years;

- Provision for the 2020/21 pay award not required due to award being settled at an amount lower than estimated - £0.500m saving;
- Council Tax / Business Rates Net Deficit of £1.482m in 2020/21.

Updated MTFP 2021/22 to 2024/25

4.29 Based upon the revisions relating to Government funding and the updated MTFP assumptions it is now estimated that the funding shortfall between 2021/22 and 2024/25 will be **£29.847m**, before any Council Tax decisions are made, and any additional service delivery options are considered. A detailed analysis is shown below:

	2021/22	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**
Government Funding:				
- Social Care Grant	-2.505	0.000	0.000	0.000
- NHS Contribution to BCF	0.000	0.000	0.000	0.000
- Lower Tier Services Grant	-0.430	0.000	0.000	0.000
- Public Health Grant	0.000	0.000	0.000	0.000
- New Homes Bonus	0.266	0.000	0.000	0.000
- Housing Benefit / Council Tax Admin Subsidy	0.100	0.100	0.100	0.100
- Settlement Funding Assessment / Business Rates Baseline	-0.847	0.000	0.000	0.000
- General Government Funding	0.000	0.000	0.000	0.000
	-3.416	**0.100**	**0.100**	**0.100**
Key MTFP updated assumptions:				
- Provision for Pay Inflation	3.250	3.250	3.250	3.250
- Provision for Pension Increases	0.600	0.600	0.600	0.600
- Provision for Inflation on Contracts	0.100	0.100	0.100	0.100
- Assumed increase in Care Provider costs re. Adult Social Care	2.000	2.000	2.000	2.000
- Levy increases	-0.070	0.700	0.700	0.700
- Existing service budget pressures	7.780	0.000	0.000	0.000
- Other Changes	0.535	0.000	0.000	0.000
	14.195	**6.650**	**6.650**	**6.650**
Non-Recurring Savings	**-1.782**	**0.200**	**0.200**	**0.200**
Revised MTFP Funding Gap	**8.997**	**6.950**	**6.950**	**6.950**
Total MTFP Funding Gap				**29.847**

5. Budget Options

5.1 A number of options have been identified that can be used to mitigate part of the MTFP Funding Gap:

2020 Local Government Pension Scheme Valuation

5.2 The 2020 valuation of the Merseyside Pension Fund set contributions that the Council will need to pay for the 2020/21 to 2022/23 period. The financial position of the Fund had significantly improved since the previous valuation. Officers from the Council had been engaged with the Pension Fund to ensure this resulted in a significant saving, with payments relating to the deficit on Sefton's element of the Fund reducing dramatically compared to previous years. The saving to the Council will be £6.840m across the three years, with £1.200m relating to 2021/22 and 2022/23.

5.3 In addition, the Merseyside Pension Fund offered the Council the opportunity to prepay (in April 2020) a proportion of the total expected contributions for the three-year valuation period at a discount. After allowing for borrowing costs, the estimated net saving will be **£1.300m** in 2022/23 (one year only).

Provision for Pay Inflation

5.4 The Spending Review 2020 announced that there would be a pay freeze for the majority of areas in the public sector, including local government. However, staff who are paid less than £24,000 will receive a pay award of at least £250. It is estimated that this will reduce the amount required in the Council's provision for pay inflation by **£2.950m**.

Service options agreed by Budget Council in February 2019

5.5 Service Budget Options agreed at the 2019/20 Budget Council meeting delivered £2.269m of savings in 2019/20 with a further £0.368m in 2020/21. Some of the savings were only for a part year. The full year effect of these will deliver an additional **£0.076m** in 2021/22.

Framework for Change 2020 – Demand Management Savings realised in 2020/21

5.6 The 2020/21 Budget Report presented to Council in February 2020 outlined the workstreams that would be established in order to review demand led budgets. Due to the size, complexity and demand for these services, a continual review would be undertaken to ensure that the cost base for these services reduces, an early intervention and prevention programme is embedded, and residents are supported in 'moving down the system' so as to reduce the demand for Council services and particularly those at the acute end.

5.7 From the initial work of the Adult Social Care workstream, savings of **£3.300m** have been identified in 2020/21, which are offsetting some of the service pressures being experienced in 2020/21. These savings are considered to be permanent at this stage but will continue to be reviewed as part of the Demand Management Project.

Crosby Lakeside Adventure Centre

5.8 The Crosby Lakeside Redevelopment Project is to provide a sustainable future for, and to optimise the benefits from, the Centre. Once operational, the Council will no longer be required to provide a subsidy. This will save **£0.110m** in 2021/22 and a further **£0.106m** in 2022/23.

6. Additions to the Budget

Contingency Provision for Growth in Children's Social Care

6.1 As previously reported, the pressure on the Children's Social Care budget from increases in the number of Looked After Children remains significant. Whilst the service is currently undertaking a Major Service Review, it is considered prudent to build in a provision of **£2.000m** for 2021/22, to only be made available if costs increase above the current service budget. Further provision may need to continue beyond 2021/22. This will continue to be assessed during the year and any potential implications will be included in future updates of the MTFP.

Additional Staffing in Special Educational Needs and Disabilities (SEND)

6.2 In the 2020/21 budget plan it was considered necessary to provide some short-term staffing resources to alleviate the pressures within the SEND service. Due to a significant increase in the number of Education Health and Care Plans (30% since 2016) it is now considered that these staffing resources need to be added into the budget permanently (£0.400m – no net impact as funding is already included in the 2020/21 base budget).

ICT Contract Inflation / Building Health and Safety

6.3 The cost of the Council's major ICT systems has increased significantly in recent years and cannot be contained within existing budgets. In addition, the Council is adopting a Corporate Landlord model for all its buildings will ensure the Council meets its health and safety obligations. These unavoidable costs will increase the budget by **£0.780m** in total).

Additional Investment in Street Scene Activities

6.4 The Council is committed to ensuring that Sefton remains an attractive place to live, work and visit. It will therefore invest a further **£0.500m** in street scene activities including enhancements relating to the removal of fly tipping, street cleansing and weed removal.

Income from the Strand Shopping Centre

6.5 Members will be aware that since the purchase of the Strand, surplus income of over £1.000m has been raised which has been used to support the Council's budget, and indeed the shopping centre has made a positive financial return each year. However, due to the significant impact of COVID-19 on retail businesses it is expected that there will be a reduction in income in 2021/22 as businesses close and others experience difficult trading conditions. The current forecast is that losses of **£1.500m** will be experienced in 2021/22, however this will be the subject of change depending economic conditions, the timing of any further restrictions as a result of the pandemic and the resulting circumstances for individual tenants. This will be reflected in future business cases and monitoring reports.

7. Council Tax / Business Rates – Potential Loss of Income

7.1 Section 9 outlines the impact on the 2021/22 budget of expected reductions in Council Tax and Business Rates, both during 2020/21 and 2021/22. However, there is major uncertainty about how much of this impact will be temporary and what might be a more permanent ongoing reduction in receipts from both sources of income. If the forecast reduction in receipts relating to 2021/22 were to continue into 2022/23 then this would require £6.600m of savings to be found to compensate, assuming no additional government support would be made available to offset these losses.

8. Updated Budget Plan 2021/22 to 2024/25

8.1 Based upon the potential budget options, additions and funding it is now estimated that the funding shortfall between 2021/22 and 2024/25 will be **£33.485m**, before any Council Tax decisions are made, and any further service delivery options are considered. A detailed analysis is shown below:

	2021/22	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**
Revised MTFP Funding Gap	**8.997**	**6.950**	**6.950**	**6.950**
Budget Options:				
- 2020 Local Government Pension Scheme Valuation	-0.600	-0.600	0.600	0.000
- Prepayment of Pension Contributions	0.000	-1.300	1.300	0.000
- Provision for Pay Inflation	-2.950	0.000	0.000	0.000
- Service options agreed by Budget Council in February 2019	-0.076	0.000	0.000	0.000
- Framework for Change 2020 – Demand Management Savings realised in 2020/21	-3.300	0.000	0.000	0.000
- Crosby Lakeside Adventure Centre	-0.110	-0.106	0.000	0.000
	-7.036	**-2.006**	**1.300**	**0.000**
Additions to the Budget:				
- Contingency Provision for Growth in Children's Social Care	2.000	0.000	0.000	0.000
- ICT Contract Inflation / Building Health and Safety	0.780	0.000	0.000	0.000
- Additional Investment in Street Scene Activities	0.500	0.000	0.000	0.000
- Reduction in income from the Strand Shopping Centre	1.500	0.000	0.000	0.000
	4.780	**0.000**	**0.000**	**0.000**
Council Tax / Business Rates – Potential Loss of Income	**0.000**	**6.600**	**0.000**	**0.000**
Revised MTFP Funding Gap – excluding Council Tax	**6.741**	**11.544**	**8.250**	**6.950**
Total MTFP Funding Gap				**33.485**

9. Ongoing Financial Impact of COVID-19

9.1 There are a number of issues relating to the impact of COVID-19 on the Council's budget for 2021/22. As it is unclear as to the ongoing impact of these issues beyond 2021/22 it is proposed that these are funded on a temporary basis in the year. Any ongoing implications will be assessed throughout the year and will need to be considered as part of the 2022/23 budget process.

Additional Emergency Funding

9.2 The government have announced that additional emergency funding will be available during 2021/22 to respond to the financial impact of the pandemic. The Council will receive £8.063m of this funding. The majority of the funding will be utilised to support the costs of responding to the pandemic and loss of income that will arise during the year, particularly during the early months. The government will continue to request information from councils on the costs and other financial pressures arising from COVID-19. Additional funding may therefore be made available if the government decides that additional support is required. As during 2020/21 the Council will monitor the financial pressures and include these in the monthly budget monitoring report presented to Cabinet.

Sales, Fees and Charges Income

9.3 There has been a significant impact on income from sales, fees and charges for a range of services during 2020/21. Whilst some income streams temporarily recovered when lockdown was eased and would expect to do so again once we come out of the national lockdown, others are expected to remain impacted whilst measures are still in place for social distancing, etc.

9.4 The government has announced that the compensation scheme in place in 2020/21 to provide support for a proportion of losses will be extended until the end of June 2021. Therefore, an element of losses will be funded through the compensation scheme. It is currently forecast that this could result in a net loss of income of **£1.500m** during 2021/22. This forecast will be reviewed as there is more experience of the impact on reopened facilities. Any balance of losses not funded by the scheme will need to be covered from the emergency funding received by the Council in 2021/22. It is assumed that income levels will return to normal from 2022/23.

Collection Fund deficit in 2020/21 arising from COVID-19

9.5 The Council, in line with all other local authorities, is experiencing significant reductions in income from both Council Tax and Business Rates. This relates to increases in households eligible to claim under the Council Tax Reduction Scheme and increases in Business Rates appeals as well as reductions in collection rates. Current estimates are that the total impact could be up to £4.983m for Council Tax and £4.700m for Business Rates.

9.6 The government have announced financial support will be provided to offset 75% of irrecoverable losses. However, Council Tax losses relating to non-collection aren't eligible for compensation under the scheme, neither are adjustments relating to previous years. It is estimated that support of £3.871m would be available. The net losses not covered by the scheme would therefore be up to **£5.812m** and will need to be funded.

9.7 The government have also announced that regulations will be amended so that any deficit relating to 2020/21 will be transferred to the Council's budget over three years rather than one. Therefore, the Council will need to set aside resources in 2021/22 to cover two-thirds of the net loss that will be charged into 2022/23 and 2023/24.

9.8 The Council did have a surplus on the Collection Fund of **£1.072m** from 2019/20. This can be used to partially offset the costs not covered by the compensation scheme.

Council Tax Base

9.9 The Council Tax Base is set by Council in January each year. It reflects changes in the number of properties and the value of exemptions and discounts. In recent years the Council Tax Base has increased steadily due to housing growth. However, due to the impact of COVID-19 on the number of CTRS claimants, the reduced collection rate and the slowdown in housing growth, there has been a significant reduction in the Base for 2021/22. Council on 21 January 2021 set the Council Tax Base for 2021/22 at 82,722.1, a reduction of 2,182.3. This reduces the Council Tax Requirement by **£3.564m**.

9.10 The government has announced additional funding to support the loss of income due to increased numbers of CTRS claimants. Sefton's allocation is **£3.471m** and will be used to offset the majority of reduced funding due to the decrease in the Council Tax Base.

Business Rates

9.11 Business Rates collection rates reduced in 2020/21 due to COVID-19 and are expected to remain lower than normal in 2021/22. In addition, there were significant numbers of appeals in 2020/21 due to restrictions being in place; whilst many of these will be temporary there will be a number that will have an ongoing impact in future years, mainly as a result of changing behaviours, particularly relating to retail, hospitality and leisure.

9.12 However, central government have advised that they are currently not assuming that there will be any reduction in the income that is due to be collected by councils. It is estimated that based on the 2020/21 position that **£3.000m** of the Council's income will be at risk as businesses no longer exist or cannot afford to pay business rates. As a result, the Council's base position should in theory be reduced. The Council has chosen to follow central government guidance and the feedback is that this national position maybe reviewed mid-year depending on the actual experience across the country. To mitigate the risk that additional support is not provided this potential loss will be covered by temporary measures described below.

Temporary Mitigating Measures to Offset Council Tax / Business Rates Losses

9.13 The potential net losses on Council Tax and Business Rates above total £7.833m. Given the uncertainty around how the impact on these income streams will continue beyond 2021/22, these losses will be funded through temporary measures. Any ongoing impact will require permanent measures to be implemented as part of future years' budgets. The following temporary measures will be used to fund these losses in 2021/22:

Use of 2020/21 Emergency Funding - It is currently estimated that the Council will have **£4.000m** of emergency funding received in 2020/21 uncommitted at the year-end. These will be used to offset the majority of the losses incurred in 2020/21 (£4.740m).

Framework for Change 2020 – Council of 2023 Savings - The Council has identified savings of **£0.890m** which can be achieved through new ways of working. This includes reviewing ICT contracts in areas such as telephony, bulk printing and mail, as well as reviewing office accommodation to take further advantage of remote / agile working that will support the delivery of the core service, the health and wellbeing of staff and climate emergency agenda.

Forecast Underspend in 2020/21 – Whilst the Council has been forecasting a small net overspend during the year, this is on the basis that the Adult Social Care budget will break even. However, it is forecast that this budget may underspend with a net overall underspend of **£1.000m** projected. Any underspend will be carried forward to help fund Collection Fund losses.

Vacancy Management – The Council currently has a number of vacancies across services. Due to natural turnover, and active management of vacancies, it is estimated that savings of at least **£0.500m** will be achieved.

School Closure Reserve – The 2020/21 base budget includes a contribution of £0.750m to a reserve to fund potential deficits on schools that close or become academies. The contribution in 2021/22 would result in the reserve standing at £1.500m. It is estimated that a maximum of £1.000m is considered prudent at this time so **£0.500m** can be utilised to temporarily support the budget.

Use of 2021/22 Emergency Funding – Any shortfall will be met from an allocation from the emergency funding received by the Council in 2021/22. Currently it is estimated that **£0.943m** will be required.

Summary of Impact of COVID-19 on the 2021/22 Budget

9.14 The table below summarises the estimated financial issues for the Council in 2021/22:

	2021/22
	£'m
Sales, Fees and Charges Income	
Estimated Net Losses	1,500
Use of 2021/22 Emergency Funding	-1.500
	0.000
Collection Fund deficit in 2020/21 arising from COVID-19	
Net losses after government compensation scheme	5.812
Collection Fund Surplus from 2019/20	-1.072
	4.740
Collection Fund deficit re. 2021/22	
Reduction in Council Tax Base	3.564
Council Tax Support Grant	-3.471

Business Rates forecast losses	3.000
	3.093
Temporary Mitigating Measures to Offset Council Tax / Business Rates Losses	
Use of 2020/21 Emergency Funding	-4.000
Framework for Change 2020 – Council of 2023 Savings	-0.890
Forecast Underspend in 2020/21	-1.000
Vacancy Management	-0.500
School Closure Reserve	-0.500
Use of 2021/22 Emergency Funding	-0.943
	-7.833
Net Impact on 2021/22 Budget	**0.000**

9.15 It should be noted that the estimates in respect of the collection fund for both 2020/21 and 2021/22 are based on information held at December 2020 and will be the subject of change both before the end of the current financial year and certainly during 2021/22. As such these will be kept under constant review and, as with Children's Services, represent the most significant risk to both next year's budget and ongoing financial sustainability. As a result, if there are material changes to these assumptions, these will be reported via Cabinet and remedial in year actions will be required.

10. Additional Funding

Council Tax Increases

10.1 The Spending Review assumed a 2% Core Referendum Principle for illustrative purposes. The Government, as part of the Local Government Finance Settlement, has confirmed the Council Tax Referendum Principle of 2% for 2021/22. A 1.99% increase for Sefton (to ensure the Council wouldn't breach the principle) would generate £2.688m in 2021/22.

10.2 As mentioned in paragraph 4.1, local authorities have been given the power to raise Council Tax by a further 3% on top of the core principle as an Adult Social Care Precept. This would generate an additional £4.053m in 2021/22.

10.3 A decision on the level of Council Tax is made by Budget Council each year. The 2020/21 Band C Council Tax is £1,451.58. It should be noted that as part of the Settlement the Government assumes local authorities will raise Council Tax by the maximum amount when calculating an individual authority's Spending Power and this will directly influence future years funding allocations.

11. Budget 2021/22 – Specific Issues

Charges Relating to External / Levying Bodies

11.1 The Council is required to pay charges relating to levies from external bodies. The expected payments for 2021/22 and their impact on Sefton's budget compared to 2020/21 is shown in the table below: -

Levying Body	2020/21	2021/22	Change
	£	£	£
Liverpool City Region (LCR) Combined Authority - Transport Levy	18,851,000	TBC	TBC
Waste Disposal Authority	15,622,453	TBC	TBC
Environment Agency	159,713	TBC	TBC
Inshore Fisheries & Conservation Authority	68,057	TBC	TBC
Port Health Authority	94,500	TBC	TBC
	34,795,723	**TBC**	**TBC**

The approved 2021/22 figures will be reported at Budget Council.

Proposed Overall Council Tax increase

11.2 The proposed total increase in the Sefton Council Tax for 2021/22 will be reported to Budget Council following any recommendation from Cabinet.

Fees and Charges

11.3 As per financial procedure rules, approved by Council, any increases to fees and charges for services for the next financial year are approved by the respective Cabinet Member. When decisions have been made, they will be published accordingly.

12. Dedicated Schools Grants (DSG) 2021/22

12.1 The Dedicated Schools Grant (DSG) is a ringfenced grant from the Department for Education (DfE) to fund education provision. It is made up of four main funding blocks:

- Schools – Mainstream schools and academies;
- Central School Services – Funding for centrally (Council) retained services, including school admissions;
- Early Years – Universal and additional entitlement for three and four-year olds; two-year old entitlement; and funding for maintained nursery schools; and
- High Needs – Funding for the education of pupils with an identified special educational need and who will often be subject to an Education, Health and Care Plan (EHCP).

12.2 In September 2019 the Government announced three years of extra funding for Schools and High Needs worth £7.1bn. This has been split across the years as follows: £2.6bn in 2020/21; £2.2bn in 2021/22 and £2.3bn in 2022/23. In 2020/21 the funding included £780m growth funding specifically allocated to High Needs, leaving £1.8bn for mainstream schools.

12.3 The 2021/22 Dedicated Schools Grant settlement was announced on 17th December 2020. The 2020/21 National DSG allocation for Sefton of £234.232m is set out in the table below.

Notional DSG Allocations 2021/22	DSG Funding 2021/22 (£m)	Comments
Schools Block	£179.786m	NB: before any inter-block allocations with High Needs (£0.430m).
Early Years Block	£17.860m	
High Needs Block	£35.412m	NB: before any inter Block adjustments for contributions by Schools towards High Needs budget pressures in 2021/22 (£0.430m)
Central Schools Services Block	£1.174m	
Total allocated DSG funding 2021/22	£234.232m	17 Dec 2020 – DfE Allocation Schedule

Schools Block

12.4 Sefton Schools Block will see a net increase in funding of £15.059m compared to 2020/21. This figure includes:

- Funding for the Teachers Pay and Pensions, previously paid as a separate grant (£7.742m);
- Minimum headroom growth of +2% funding per pupil through the new Formula Funding (£5.984m);
- Additional Net funding of (£1.092m) after taking account of changes in pupil numbers between October 2019 and October 2020 (i.e. a Net increase +194.0 year on year.
- Uplifted calculation of funding for pupil class size growth based on changes to actual pupil numbers year on year (£0.241m).

12.5 The above funding increases will ensure that the minimum funding levels per pupil in 2021/22 have been increased to £4,000 per Primary pupil and £5,150 per Secondary pupil. A further £180 and £265 per pupil has been added to this minimum funding baseline respectively to cover the incorporation of the Teachers Pay and Pensions Grant into the schools' formula funding allocations and therefore the minimum per pupil levels are £4,180 (Primary) and £5,415 (Secondary).

12.6 The DfE are committed to implementing a National Schools Funding Formula model (NFF) but making it mandatory has now been delayed until 2024/25. Sefton had committed to moving from the previous local formula to the national methodology NFF in the budget setting process for 2021/22.

12.7 The Minimum Funding Guarantee (MFG) has been set at +2% in 2021/22 which means that every school will see a minimum 2% increase per pupil compared to 2020/21 per pupil values. However, the move to applying the full NFF formula funding values to Sefton Schools in 2021/22 has seen a significant shift in funding towards deprivation and prior attainment factors. As a result, many schools in deprived areas have gained per pupil uplifts higher than +2% with some gaining up to +8.2% per pupil compared to 2020/21 per pupil values.

School Deficit Balances

12.8 Sefton maintained primary schools have an overall forecast surplus balance at the end of 2020/21 of £7.7m.

12.9 The six maintained secondary schools are forecast to have a combined 2020/21 forecast deficit balance of £1.6m. Four schools are reporting deficit balances and are operating under a Licensed Deficit Budget in 2020/21, which will continue into 2021/22. Each school has a robust budget recovery plan which in the first instance must demonstrate how the annual budget will be brought back into balance as soon as possible and in future years' how any accumulated deficit balance will be repaid to the Council. Licensed deficit budgets must be signed off by the Council's Section 151 Officer and Statutory Director of Children's Services (DCS).

Early Years Block

12.10 Early Years funding was announced in December 2020 and will be £17.860m in 2021/22. There is a small uplift in the 2021/22 national hourly base rate funding allocation, which for Sefton will mean an increase to £4.44 per hour (£4.38 in 2020/21) for Three- and Four-Year-Old Childcare; and for Two-Year-Old Childcare, an increase to £5.38 per hour (£5.30 in 2020/21). The DfE has promised to support LA s at 85% of expected census levels where the January 2021 Headcount falls below expected/usual levels due to Covid.

High Needs Block

12.11 Sefton's High Needs funding allocation for 2021/22 has increased by £3.481m compared to 2020/21. In addition, a further £0.642m has been added to support the transfer of Teachers Pay and Pension Grant funding for Special Schools into the HN Block. School Forum has voted to transfer 0.25% (£0.430m) from the Schools Block targeting funding towards supporting the most inclusive schools and to assist with the significant budget pressure that is being experienced in the High Needs Budget.

12.12 Sefton's High Needs budget is facing severe cost pressure and is currently forecast to overspend by £3.2m in 2020/21. The 2014 SEND reforms, while rightly raising expectations and extending support from birth to 25 years, did not initially come with enough increases in funding to reflect the increased cohort and complexity of children and young people. Funding increases in the last two years are therefore playing "catch up" with the increased levels of expenditure. Significantly local authorities were never funded to meet their expanded duties towards 19-25-year olds.

12.13 The DfE require all local authorities who report a deficit in excess of 1% of their overall DSG annual allocation to prepare a recovery plan setting out how going forward the budget will be brought back into a balanced position and re-pay the accumulative deficit. There is a High Needs Improvement Programme which is seeking to develop – through engagement and consultation with all stakeholders – a sustainable budget going forward.

Central School Services Block

12.14 The Central School Services Block (CSSB) is funding of £1.174m in 2021/22 given to cover ongoing historic costs and centrally retained DSG. The historic costs include the running of the Professional Development Centre; Grounds Maintenance and mothballing costs for former closed schools and centrally retained DSG services include Free School Meals checking; School Licences; School admissions; and former Education Services Grant (ESG) which funded the education statutory duties of the Local Authority.

12.15 Since 2019/20 the funding to support historic costs is being reduced by 20% each year by the DfE and there is an expectation that local authorities will find alternative ways of funding these activities or cease providing such activities. Sefton is currently challenging the DfE over an error in the "historic" funding baseline value which has meant that more funding has been taken from the CSSB over the last two years than expected.

13. Other Government Grant Notifications 2021/22

13.1 The Government have announced grant notifications for 2021/22 in the areas identified below. Should any further information be supplied on other grants, this will be included in a separate update to Cabinet / Council.

Independent Living Fund

13.2 The indicative allocation for the 2021/22 Independent Living Fund grant has yet to be announced. The 2020/21 allocation was £2.107m. It is proposed that the 2021/22 allocation will continue to be allocated to appropriate Adult Social Care budgets.

Lead Local Flood Authorities Grant

13.3 The Local Government Financial Settlement provides the majority of funding to Lead Local Flood Authorities to carry out their duties under the Flood and Water Management Act 2010, and for their role as statutory consultee on surface water for major development (i.e. they no longer receive a separate grant from Defra).

13.4 This funding was previously supplemented by a separate section 31 grant which made good the Government's commitment to protect the level of funding in real terms throughout the previous Parliament. It is yet to be announced whether the section 31 grant element of the funding will continue in 2021/22. Sefton's Grant was £0.011m in 2020/21. It is proposed that if this grant continues to be paid in 2020/21 it continues to be allocated to the appropriate Flood Defence budget.

Homelessness Prevention Grant

13.5 The government have announced a new grant to support homelessness in 2021/22, the Homelessness Prevention Grant. This combines two grants previously received, the Flexible Homelessness Support Grant and the Homelessness Prevention Grant. The indicative allocation for 2021/22 is £0.536m. The 2020/21 allocations for the previous grants were £0.363m in total. It is proposed that the 2021/22 allocation will continue to be allocated to appropriate Homelessness budgets.

14. Summary of Budget Proposals for 2021/22

14.1 As a result of the information contained within this report the bridging of the 2021/22 funding gap is shown as follows:

	2021/22
	£'m
Revised MTFP Funding Gap	**8.887**
Potential Budget Options	**-6.626**
Potential Additions to the Budget	**4.780**
Revised MTFP Funding Gap – excluding Council Tax	**6.741**
Council Tax – Core increase (TBC%)	**TBC**
Adult Social Care Precept (TBC%)	**TBC**

A summary of the budget for 2021/22 is shown at Appendix B (note that for illustrative purposes this assumes a Council Tax increase of 4.99% in 2021/22).

15. Precepts

a. <u>Police & Crime Commissioner and Fire & Rescue Precepts</u>

The Police and Crime Commissioner is due to set a budget / precept for 2021/22 on 23 February 2021. The Fire and Rescue Authority is due to set its budget / precept for 2021/22 on 25 February 2021.

	Precept			**Band C**		
	2020/21	**2021/22**	**Change**	**2020/21**	**2021/22**	**Change**
	£	£	£	£	£	%
Police	17,997,190	TBC	TBC	188.42	TBC	TBC
Fire	6,826,314	TBC	TBC	71.47	TBC	TBC

The approved 2021/22 figures will be reported at Budget Council.

b. LCR Mayoral Precept

To be able to deliver the Mayor's key priorities in 2021/22 a Mayoral Precept is levied on Council Taxpayers across the region, with no increase in the Band C charge approved at the Authority's meeting on 22 January 2021.

	Precept			Band C		
	2020/21	2021/22	Change	2020/21	2021/22	Change
	£	£	£	£	£	%
Mayoral	1,613,184	TBC	TBC	16.89	16.89	0.00

The approved 2021/22 figures will be reported at Budget Council.

c. Parishes

The Parish precepts variations that have been set are shown below:

	Precept			Band C		
	2020/21	2021/22	Change	2020/21	2021/22	Change
	£	£	£	£	£	%
Aintree Village	153,196	TBC	TBC	65.56	TBC	TBC
Formby	91,689	TBC	TBC	8.85	TBC	TBC
Hightown	9,000	TBC	TBC	9.16	TBC	TBC
Ince Blundell	2,400	TBC	TBC	12.52	TBC	TBC
Little Altcar	3,319	TBC	TBC	8.85	TBC	TBC
Lydiate	166,002	TBC	TBC	71.22	TBC	TBC
Maghull	701,280	TBC	TBC	92.12	TBC	TBC
Melling	36,050	TBC	TBC	31.58	TBC	TBC
Sefton	10,000	TBC	TBC	37.48	TBC	TBC
Thornton	6,000	TBC	TBC	6.76	TBC	TBC
	1,178,936	**TBC**				

The approved 2021/22 figures will be reported at Budget Council.

16. Recommended Council Tax for 2021/22

Council are recommended to approve the Budget for 2021/22, as set out in the main report.

The recommended overall Band C Council Tax to be raised for 2021/22 (excluding Parish Precepts) is as follows: -

	2020/21	2021/22	Increase
	£	£	%
Sefton	1,451.58	TBC	TBC
Police & Crime Commissioner	188.42	TBC	TBC
Fire & Rescue Authority	71.47	TBC	TBC
Mayoral Precept	16.89	TBC	TBC
	1,728.36	**TBC**	**TBC**

The recommended Council Tax for 2021/22 will be reported to Budget Council

17. Capital Programme 2021/22 to 2022/23

17.1 Each year, Budget Council approves the detailed capital programme for the forthcoming year following notification from central government of any grant allocations that are to be received. This is aside from any in year approvals in respect of the growth and strategic investment programme for which comprehensive business cases are provided as schemes are developed and funding sources are identified. The three remaining significant grant allocations received by the Council are in respect of Adult Social Care, schools and transport. Due to the funding conditions, these grants will be utilised within the relevant services and these are shown at Appendix C, in addition to the proposed use of the Better Care Fund and all other schemes in the Capital Programme.

17.2 The Capital Programme shown at Appendix C also includes the following schemes that have not previously been approved by Council:

<u>Street Lighting Asset Project</u>
Sefton Council made a Climate Emergency Declaration in July 2019 which has led to the development of Sefton's Climate Change Emergency Plan and associated Action Plan. These seek to reduce Sefton Council's carbon emissions to net zero by 2030. The Council also wants to reduce energy costs as part of good financial management. The energy used by Street Lighting accounts for 26% of the Council's total carbon footprint and these energy costs are increasing year-on-year at a rate above inflation incurring a significant cost to the Council. The Urban Traffic Control (UTC) Asset also requires upgrading to LED and will reduce energy consumption. In relation to climate change the energy used accounts for a significant portion of the carbon emissions that the Council wants to reduce.

The business case elsewhere on the Cabinet / Council agenda seeks approval to invest £12.750m (prudential borrowing) in the Street Lighting Asset Project to improve the portfolio through the installation of LED technology and replacement of life expired assets. The programme will generate significant operational cost savings of £24m (after repayment of the loan) over 20 years against current forecast expenditure without intervention.

<u>Crosby Marine Lake – Phase One</u>
Phase one of proposals to restore the lake will be to repair and upgrade the existing pumping station and accommodating works to remove wind-blown sand from adjacent footpaths and areas. A supplementary capital estimate of £0.155m is required for this project to be funded from Council resources.

<u>Litherland Sports Park – Improvement to Facilities</u>
Litherland Sports Park is an important part of the Council's playing pitch strategy and at present needs some major investment. A scheme has been developed to resurface and upgrade the pitch, as well as upgrade the existing lighting to LED.

The estimated cost of this scheme is £0.250m to be funded from previously released earmarked reserves. This allocation of reserves has been approved, under delegated authority, following the identification of reserves no longer required for their intended purpose. This review of earmarked reserves was reported to Cabinet on 5 December 2019. A supplementary capital estimate of £0.250m is required to be funded from earmarked reserves.

Bootle Golf Driving Range
In February 2020 £0.256m of capital funding was approved by Council on a invest to save basis for the construction of a new golf driving range at Bootle Golf Course. This was based on a business case developed for the two municipal golf courses in Sefton. Following this approval, work has been ongoing during 2020 developing the design of the first range at Bootle Golf Course. Site surveys have been undertaken and planning has been approved.

The overall project costs have now increased since the original business case was submitted due to unforeseen site survey and outfield remediation costs. Building costs in 2020 have also increased significantly due to the effects of Covid-19 and increased building material costs. These were unforeseen circumstances and the design has been revised to minimise these additional costs as much as possible through value engineering.

To take this project forward however, will require an additional £0.164m of funding to complete the driving range in 2021. A supplementary capital estimate is required, funded from borrowing on an invest to save basis. Provision for the repayment costs for this capital investment will be contained with the business model for the driving ranges.

Brownfield Fund for Housing Development
As part of the March 2020 Budget the Government launched a £400m Brownfield Land Fund (BLF) to be distributed to Combined Authority areas. The Liverpool City Region has received £45m which will be allocated over a five-year period.

The Council, through its Housing Development Company Sandway Homes Limited, has bid for BLF grant to help bring forward a housing development in Netherton. This amounts to £1.050m. Discussions are ongoing but subject to confirmation, and following receipt by the Council, this will be transferred to Sandway Homes Limited to complete the works in accordance with the grant funding agreement. The Council is therefore the accountable body and a supplementary capital estimate of £1.050m is required to support this, which is fully funded by the external grant (subject to final confirmation).

Within the grant agreement there is the provision for clawback should the site not progress as intended. In the unlikely event that the Council decided to cease development of this element of the programme then the Council would be liable for the clawback of funds received.

List of Appendices

A Individual School Budgets 2021/22

B Draft Council Budget Summary 2021/22

C Capital Programme 2021/22 - 2022/23

SCHOOLS FORMULA FUNDING ALLOCATIONS 2021/22

	BUDGET 2021/22 £
TOTAL FORMULA FUNDING LEVELS - SCHOOLS 2021/22	**177,893,913**
PRIMARY PHASE - MAINTAINED SCHOOLS	
Ainsdale St John's Church of England Primary School	894,741
Aintree Davenhill Primary School	1,775,184
All Saints Catholic Primary School	1,780,248
Bedford Primary School	1,825,709
Birkdale Primary School	1,699,230
Bishop David Sheppard Church of England Primary School	917,177
Christ Church Church of England Controlled Primary School	1,905,644
English Martyrs' Catholic Primary School	1,740,326
Farnborough Road Infant School	1,440,316
Farnborough Road Junior School	1,997,129
Forefield Community Infant and Nursery School	1,137,632
Forefield Junior School	1,508,510
Freshfield Primary School	913,380
Great Crosby Catholic Primary School	2,932,600
Green Park Primary School	893,961
Hatton Hill Primary School	1,648,203
Holy Family Catholic Primary School	879,963
Holy Rosary Catholic Primary School	1,726,018
Holy Spirit Catholic Primary School	935,968
Hudson Primary School	933,254
Kings Meadow Primary School and Early Years Education Centre	869,313
Lander Road Primary School	1,064,142
Larkfield Primary School	1,173,488
Linacre Primary School	867,137
Linaker Primary School	1,856,062
Lydiate Primary School	971,821
Marshside Primary School	814,564
Melling Primary School	928,433
Netherton Moss Primary School	1,009,343
Northway Primary School	1,317,920
Norwood Primary School	2,386,293
Our Lady of Compassion Catholic Primary School	862,031
Our Lady of Lourdes Catholic Primary School	1,983,726
Our Lady of Walsingham Catholic Primary School	956,775
Our Lady Queen of Peace Catholic Primary School	689,025
Our Lady Star of the Sea Catholic Primary School	1,020,541
Redgate Community Primary School	926,844
Rimrose Hope CofE Primary School	1,393,813
Springwell Park Community Primary School	1,962,206
St Benedict's Catholic Primary School	953,460
St Edmund's and St Thomas' Catholic Primary School	1,293,653
St Elizabeth's Catholic Primary School	1,787,059
St George's Catholic Primary School	850,698
St Gregory's Catholic Primary School	880,428
St Jerome's Catholic Primary School	851,191
St John Bosco Catholic Primary School	886,103
St John's Church of England Primary School	853,484
St John's Church of England Primary School	890,467

Appendix A

St Luke's Church of England Primary School	1,615,506
St Luke's Halsall Church of England Primary School	868,685
St Mary's Catholic Primary School	500,810
St Monica's Catholic Primary School	1,830,833
St Nicholas Church of England Primary School	876,774
St Oswald's Church of England Primary School	983,568
St Patrick's Catholic Primary School	1,491,480
St Philip's Church of England Controlled Primary School	943,178
St Philip's Church of England Primary School	882,774
St Robert Bellarmine Catholic Primary School	912,775
St Teresa's Catholic Infant and Nursery School	220,743
St William of York Catholic Primary School	1,025,772
Summerhill Primary School	890,174
The Grange Primary School	1,309,490
Thomas Gray Primary School	1,055,223
Trinity St Peter's CofE Primary School	889,538
Ursuline Catholic Primary School	1,726,550
Valewood Primary School	910,015
Waterloo Primary School	1,826,366
Woodlands Primary School	1,279,276
	83,824,740
SECONDARY PHASE - MAINTAINED SCHOOLS	
Christ The King Catholic High School and Sixth Form Centre	4,235,587
Holy Family Catholic High School	4,434,875
Maricourt Catholic High School	5,763,822
Meols Cop High School	5,111,803
Sacred Heart Catholic College	5,586,871
Savio Salesian College	2,818,855
	27,951,814
PRIMARY ACADEMY SCHOOLS	
Churchtown Primary School	3,209,277
Holy Trinity Church of England Primary School, Southport	1,010,607
Kew Woods Primary School	1,662,516
Litherland Moss Primary School	1,044,620
Shoreside Primary School	733,152
St Andrews Church of England Primary School, Maghull	1,216,093
St Thomas Church of England Primary School, Lydiate	884,517
	9,760,782
SECONDARY ACADEMY/FREE SCHOOLS	
Birkdale High School	4,456,710
Chesterfield High School	6,688,452
Deyes High School	6,255,466
Formby High School	5,018,668
Greenbank High School	5,532,375
Hillside High School	4,306,405
King's Leadership Academy Hawthornes	2,887,360
Litherland High School	3,912,731
Maghull High School	4,822,740
Range High School	4,970,572
St Michael's Church of England High School	3,754,902
Stanley High School	3,750,198
	56,356,577

Appendix B

Council Budget Summary 2021/2022

Line Ref	Service	Base Budget 2020/2021 £	Draft Base Budget 2021/2022 £
1	**Strategic Management**	**3,136,350**	**3,136,350**
2	**Adult Social Care**	**94,800,100**	**97,000,100**
3	**Children's Social Care**	**34,976,550**	**40,256,550**
4	**Communities**	**18,358,650**	**19,847,350**
5	**Corporate Resources**	**8,544,900**	**9,944,900**
6	**Economic Growth and Housing**	**5,659,350**	**5,810,350**
7	**Education Excellence**	**9,782,650**	**11,119,650**
8	**Health and Wellbeing**	**18,497,950**	**18,497,950**
9	**Highways and Public Protection**	**10,552,800**	**10,858,800**
10	**Locality Services**	**12,239,650**	**13,329,650**
11	**Other Services**	**3,023,000**	**3,023,000**
12	**Net Cost of Services**	**219,571,950**	**232,824,650**
13	Debt Repayment / Net Interest	8,001,800	8,201,800
14	**Sub total**	**227,573,750**	**241,026,450**
15	Budget Pressure Fund	6,410,700	3,000,000
16	Levies	34,701,200	34,631,200
17	Application of Provisions / Reserves / Corporate Expenditure	2,361,494	-24,314,250
18	Capitalisation	-1,566,000	-1,566,000
19	Corporate / One-Off Savings	-358,550	-858,550
20	Inflationary Items to be Allocated	458,800	485,363
21	Corporate Savings to be allocated to Services	0	-550,000
22	**Total**	**269,581,394**	**251,854,213**
23	Specific Government Grants	-21,803,400	-21,803,400
24	Non-Specific Government Grants	-24,572,293	-40,851,579
25	**Total**	**223,205,701**	**189,199,234**

Council Budget Summary 2021/2022

Line Ref	Service	Base Budget 2020/2021 £	Draft Base Budget 2021/2022 £
26	Increase in General Balances	1,500,000	1,500,000
27	**Total Budget Requirement**	**224,705,701**	**190,699,234**
28	Add Parish Precepts	1,178,936	1,178,936
29	**Total Net Expenditure**	**225,884,637**	**191,878,170**
	SUMMARY OF GENERAL BALANCES		
30	Balances Brought Forward	6,983,531	8,483,531
31	Increase in Balances	1,500,000	1,500,000
32	**Balances Carried Forward**	**8,483,531**	**9,983,531**

FINANCING OF SEFTON'S BUDGET REQUIREMENT

Total Budget Requirement		224,705,701	190,699,234
Less:	Revenue Support Grant	0	0
	Top-Up Grant	-21,248,829	-21,248,829
	Business Rates Receipts	-66,779,364	-29,105,184
	Collection Fund Deficit / Surplus (-) - Council Tax	1,973,925	1,483,474
Sefton Requirement from Council Tax		138,651,433	141,828,695
Band D Council Tax		1,633.03	1,714.52
Illustrative Council Tax Increase			**4.99%**

Note that the Sefton Requirement from Council Tax and quoted Band D Council Tax in 2021/2022 is based on a Council Tax increase that is for illustrative purposes only.

Appendix C

Capital Programme 2021/22 & 2022/23

CURRENT CAPITAL PROGRAMME	2021/22 £'000	2022/23 £'000
ADULT SOCIAL CARE		
Disabled Facilities Grant	1,421	
Double to Single Handed Care Equipment	282	
Community Equipment Store - Vehicle Replacement	242	
Assistive Technology Supported Living	190	
Changing Places	200	
Retail Model within Health and Wellbeing Hubs	450	
Extra Care Housing		750
Improvement Programme - Complex Needs	1,200	
Wider Social Care Programme (unallocated)	2,770	
COMMUNITIES		
Libraries	265	
CORPORATE SERVICES		
Corporate Maintenance	18	
Council Wide Essential Maintenance	2,462	
Victoria Baths Essential Works	147	
PSR - Cost of Change	221	
ECONOMIC GROWTH AND HOUSING		
Strategic Acquisitions - Land at Bootle	149	
Town Centre Commission - Bootle	250	
Southport Market Redevelopment	500	
Cambridge Road Centre Redevelopment	70	
Crosby Lakeside Redevelopment	2,100	
Strategic Acquisitions - Ainsdale	1,000	
HMRI	50	
Southport Pier	131	
EDUCATION EXCELLENCE		
School Funding (unallocated)	629	
School General Maintenance	52	
Birkdale Primary - Replace Fire Alarm	46	
Christchurch Primary - Windows, Roof, Playground	271	
Farnborough Rd Infants - Boiler	6	
Farnborough Rd Junior - Wiring, Fire Alarm, Lightning Protection	191	
Farnborough Rd Site - Boundary Walls & Brickwork, Roof	150	
Forefield Juniors - Asbestos Removal	118	
Freshfield - Boiler Replacement and Replace Wiring	103	103
Grange - Boiler, Rewiring, Lightning Protection, Roof Refurb	536	
Great Crosby Remodelling - Phase 4	27	
Hatton Hill - Roof Refurbishment	67	
Hudson Primary - Windows, Roof Refurbishment, Heating Ducts	524	24
Jigsaw - Thornton Family WB - Upgrade Fire Alarm System	19	
Kings Meadow Primary - Replace Wiring Systems	113	115
Lander Road - Replace Fire Alarm System	29	1

Agenda Item 8

Appendix C

CURRENT CAPITAL PROGRAMME (continued)	**2021/22 £'000**	**2022/23 £'000**
Larkfield Primary - Refurbishment of Toilets	38	
Linacre CP - Repoint and Repair Brickwork, Walls, Kitchen Dining Link	15	
Linaker Primary - Cold Water Storage	81	
Lydiate Primary - Rewiring & Windows, Roof, Playground, Sanitary	760	
Marshside Primary - Lighting, Fire Alarm, Roof, Playground, Car Park	265	2
Meols Cop - Roof Refurbishment, Car Park Surface	210	
Merefield - roof works, playground	27	
Netherton Moss - Rewiring and Roof, Toilets, Brickwork, Windows	350	
Northway Primary - Hall Floor Refurbishment, Toilet Refurbishment	42	
Norwood Primary - Upgrade Fire Alarm System	36	1
Oakfield - Re-surface Car Park and Re-lay Footpaths	28	
Sand Dunes - Replace Fire Alarm System	10	
St. Philip`s CEP (Litherland) - Replace Boilers	130	
Summerhill Primary - Replace Wiring Systems	151	155
Waterloo Primary - Roof refurbishment, Brickwork Repairs	21	
Woodlands Primary - Rewiring, Repointing Brickwork & Flue Repairs	179	
Crosby High - Accessibility Works	1	
Rowan Park School - Expansion	11	
Rowan High 6th Form - 3 Classrooms	725	25
Daleacre - Toilets, Changing Rooms, Fire Doors, Security	50	
Oakfield - Lockdown Facility, Fire Doors	18	
Pinefield - Internal Alterations	30	
HIGHWAYS & PUBLIC PROTECTION		
Area Accessibility	150	
Pedestrian Refuges	30	
Travel Awareness Cycling & Health	50	
Kirkby to Maghull Cycle Route	162	
Southport East West Links	250	
ERDF SUD Environmental Improvements	98	
Local Safety Schemes	125	
Thornton Area Traffic Management	60	
A565 Corridor Improvements - Great Georges Road	290	
Crosby Coastal Park	930	
Strategic Design	30	
Crosby Town Centre Access / Accessibility	15	
Electric Vehicle Charging	25	
Environmental Improvements in Residential Areas	15	
A59 Maghull Route Management	250	
Active Travel Tranche 2	700	
Schools Streets Schemes	30	
Scarisbrick Avenue	820	
Bridges	1	
A565 Northern Key Corridor Improvements	200	
LOCALITY SERVICES		
Blue Recycling Wheeled Bins	1,230	
Vehicle Replacement Programme	7,282	113
Burials & Cremation Insourcing - Vehicles & Equipment	90	

CURRENT CAPITAL PROGRAMME (continued)	**2021/22 £'000**	**2022/23 £'000**
Green Sefton - Plant & Machinery	123	
Flood Management Schemes	542	786
Parks Schemes	257	127
Golf Driving Range Developments	480	
Total Current Grant Allocations and Other Funding	**34,412**	**2,202**
Less: Unallocated Education Funding c/fwd	-629	
Less: Unallocated Adult Social Care Funding c/fwd	-2,770	
TOTAL PROGRAMME	**31,013**	**2,202**

GRANT ALLOCATIONS 2021/22 to 2022/23 (indicative amounts)	**2021/22 £'000**	**2022/23 £'000**
School Allocations		
Devolved Formula Capital (direct school allocation)	346	346
Capital Maintenance Grant	1,466	1,466
Unallocated Funding b/fwd	629	
	2,095	**1,466**
Proposed Schemes: -		
Schools General Maintenance	450	
Birkdale CP - Roof, fire precaution work, replace windows, brickwork	150	65
Daleacre Impact - Repoint brickwork	20	
Farnborough Infant - Roof system - Wellbeing Centre	25	
Farnborough Road Junior - Roof incl. RWPs, gutters, facias, soffits	90	50
Forefield Infants - Land drains, high level windows, brickwork	40	20
Hudson Primary - Roof phase 2, drainage, repoint and concrete sills	60	140
Linacre Primary - Outdoor play canopy and main hall improvements	70	40
Lydiate CP - Drain repairs and roof repairs Phase 2	20	115
Marshside Primary - Rewire	190	
Merefield Special school - Roof repairs phase 2 and playground	115	120
Netherton Moss - Fire doors	25	25
Northway Primary - Toilets - additional W/Cs	30	
Northway Primary - Security	38	
Pinefield PRU - Replace ceilings and light fittings and fire doors	45	
Redgate Primary - Accessible ramps to classrooms and brickwork	33	
SEND provision - Hudson Primary and Impact	500	
St John Crossens - Repoint brickwork	24	
St Johns Crossens - Specialist toilets	80	
St Philips Litherland - Roof repairs	45	
Valewood Primary - Ceilings and lighting in classrooms and rewire	25	
Waterloo Primary - Repoint brickwork	20	
	2,095	**575**

Appendix C

(Indicative Amounts Continued)	2021/22 £'000	2022/23 £'000
Transport Allocations		
LTP - Highways Maintenance Block	1,800	1,800
LTP - Integrated Transport Block	990	990
LTP - Key Route Network	900	900
Pot Hole Funding	175	175
	3,865	**3,865**
Proposed Schemes: -		
Southport East-West Links (Phase 2)	260	
Southport Liveable Neighbourhoods	500	
Southport Environmental Improvements	98	
Crosby Coastal park	930	
Southport Eastern Access	500	
Maritime Corridor	500	
Crosby Town Centre	140	
A59 Damfield Lane	200	
Scarisbrick Avenue	50	
Southport Town Centre Improvement	90	
Bootle Town Centre Connectivity	60	
A565 Ince Woods Corridor Improvements	80	
A59 – Northway Corridor	200	
Liveable Neighbourhood scheme	50	
	3,658	**-**
Adult Social Care Allocation		
Better Care Fund	4,251	4,251
Unallocated Funding b/fwd	2,770	
	7,021	**4,251**
Proposed Schemes: -		
Disable Facilities Grants – Core Grants	2,700	
Children's Social Care – Support for Fostering Placements	100	
Technology Enabled Care (TEC) – Equipment & Service Development	444	
ICT Development & Transformation	773	
Recurrent Funding for officers already in post	104	
Occupational Therapy Support	256	
Care Home Improvements	1,700	
Community Equipment	377	
	6,454	**-**

Report to:	Cabinet	Date of Meeting:	11 February 2021
Subject:	Street Lighting Asset Project		
Report of:	Head of Highways and Public Protection	Wards Affected:	(All Wards);
Portfolio:	Locality Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	No (Rule 27 and 46 approvals received)
Exempt / Confidential Report:	No		

Summary:
To seek approval to proceed with the Street Lighting Asset Project which will reduce energy usage, reduce carbon emissions and clear the backlog of age-expired street lighting assets.

Recommendation(s):

That Cabinet:

1. approve the Street Lighting Asset Project and delivery of the recommended option as set out in this report;

2. approve the establishment of an in-house project team to manage the project;

3. recommend to Council that a Supplementary Capital Estimate for the scheme of £12.750m, which is to be funded by prudential borrowing on an invest to save basis, be approved;

4. it be noted that the proposal was a Key Decision but had not been included in the Council's Forward Plan of Key Decisions. Consequently, the Leader of the Council and the Chair of the Overview and Scrutiny Committee (Regeneration and Skills) had been consulted under Rule 27 of the Access to Information Procedure Rules of the Constitution, to the decision being made by Cabinet as a matter of urgency on the basis that it was impracticable to defer the decision until the commencement of the next Forward Plan because undertaking the project requires substantial new Capital Investment which should be included within the proposed Capital Programme which is being considered by Cabinet on 11th February 2021, prior to consideration by Council on 4th March 2021; and

5. it be noted that the Leader of the Council and the Chair of the Overview and Scrutiny Committee (Regeneration and Skills) had given his consent under Rule 46 of the Overview and Scrutiny Procedure Rules for this decision to be treated as urgent and not subject to "call in" on the basis that it cannot be reasonably deferred because it

needs to be included within the 2021/22 Budget and Capital Programme to be considered by Council on 4th March 2021

Reasons for the Recommendation(s):

To enable the Council to deliver the benefits set out in the Business Case.

Alternative Options Considered and Rejected: (including any Risk Implications)

The business case has considered several alternatives, including continuing the current approach. Continuing the current approach would result in significantly increased costs, as energy prices are predicted to continue to rise; significant ongoing carbon emissions; and continued liabilities associated with the backlog of age-expired assets. The business case has considered the Strategic, Economic, Commercial, Financial and Management Case for each option, in order to determine the most favourable option.

What will it cost and how will it be financed?

(A) Revenue Costs

The current budget for street lighting energy costs is £1.80m and these are anticipated to increase by 8% per annum. Such an increase would result in additional costs of £2.09m over and above the current budget in year 10. Therefore, by 2030/31, the annual energy costs are projected to increase to £3.89m which is significantly higher than the current budget provision and this would place significant pressure on Council resources.

The proposals set out within this report for the Street Lighting Asset Project involve the installation of energy efficient light bulbs and capital investment in lighting columns. These are anticipated to result in savings of £1.70m in total over the first 6 years of the project compared to the current budget. Savings compared to the budget in the first three financial years are estimated to be £159k, £278k and £455k in years 1 to 3 respectively. Estimated savings over the project life cycle of 24 years, after taking in account PWLB loan repayments, are £68m compared to the estimated cost of maintaining the status quo. Therefore, the project would result in a reduced call on Council resources in future years.

The business case has assumed a level of inflation for energy costs at 8% per year. However, predicting inflation in the future is uncertain, therefore the business case has considered changes in inflation rates for energy costs. If energy price inflation were 10% on average per annum, the saving over the project life cycle would increase to £90m. If energy price increases were lower at 7% on average per annum, the estimated total project savings compared to the status quo over the project life cycle would still be significant at £59m.

(B) Capital Costs

The Business Case demonstrates the project is affordable over the life of the project with all capital repayment costs built in.

The preferred option, option 2, would require additional capital expenditure of £12.750m funded by prudential borrowing. It is recommended that the business case should be considered over 20 years, rather than the standard 40 years for infrastructure assets, as a more prudent estimate of the useful economic life of the equipment.

The Council's MRP policy which outlines the rules regarding prudential borrowing allows the Executive Director for Corporate Resources and Customer Services, in limited circumstances, to use alternative lives for assets (capital schemes) that have characteristics that mean using the standard life would not be considered appropriate.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): The cost of borrowing will be met from the existing street lighting revenue budget. The current Street Lighting Team will be supplemented to form a project delivery team for the duration of the project.
Legal Implications: Under Section 41 of the Highways Act 1980 Sefton Council has a statutory duty to maintain the public highway.
Equality Implications: There are no equality implications.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: Street Lighting contributes to the ability for residents to use the highway safely and a move to LED light, which is whiter, will improve this.
Facilitate confident and resilient communities: Street Lighting contributes to resident's perceived security allowing them to confidently use the highway.
Commission, broker and provide core services: The investment will minimise the impact of future energy cost rises, ensuring that as much of the available resource as possible is directed to maintaining and improving the highway asset and securing the best standards possible within the resources available.
Place – leadership and influencer: We will be demonstrating the Council's commitment to reducing carbon emissions, as well as modernising and improving the highway asset across the borough.
Drivers of change and reform: This will deliver wholesale change to the Council's street lighting assets and energy usage, and a significant reduction in the Council's carbon usage.
Facilitate sustainable economic prosperity: The highway facilitates economic activity, the lighting of the highway contributes to its safety, whiter light will enhance the street scene.
Greater income for social investment: Minimising expenditure on energy costs ensures more funding is available for services vital to our communities
Cleaner Greener Street Lighting accounts for 26% of the Council's total carbon emissions and this project is planned to reduce the Council's total carbon emissions by 16%.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director Corporate Resources & Customer Services (FD 6295/21) and the Chief Legal & Democratic Officer (LD4496/21) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

No external Consultation has taken place.

Implementation Date for the Decision

Immediately following the meeting, in order to enable inclusion within the 2021/22 Budget and Capital Programme to be considered by Council on 4th March 2021.
The Chair of the Overview and Scrutiny Committee (Regeneration and Skills) has given approval under Rule 46 of the Overview and Scrutiny Procedure Rules for the ‘call-in’ period to be waived in respect of the executive decision.

Contact Officer:	Graham Lymbery
Telephone Number:	0151 934 2960
Email Address:	graham.lymbery@sefton.gov.uk

Appendices:

The following appendices are attached to this report:

Street Lighting Asset Business Case

Background Papers:

There are no background papers available for inspection.

Introduction

1. Sefton Council made a Climate Emergency Declaration in July 2019 which has led to the development of Sefton's Climate Change Emergency Strategy and associated Action Plan. These seek to reduce Sefton Council's carbon emissions to net zero by 2030.

2. The Council also wants to reduce energy costs as part of good financial management. The energy used by Street Lighting accounts for 26% of the Council's total carbon footprint (based on 2019/20 figures) and these energy costs are increasing year-on-year at a rate above inflation incurring a significant cost to the Council.

3. The Urban Traffic Control (UTC) Asset also requires upgrading to LED and will reduce energy consumption.

4. In relation to climate change, the energy used by these assets accounts for a significant portion (26%) of the carbon emissions that the Council wants to reduce.

5. This report and attached Business Case seeks approval to invest £12.750m (prudential borrowing) in the Street Lighting Asset Project to continue to improve the portfolio through the installation of LED technology and replacement of life expired assets. The programme (including repayment of the loan) will generate significant operational cost savings compared to the forecast expenditure without intervention, approximately £68m over the period of the business case (Net Present Value of saving is £26m).

Background

6. The Council has been upgrading the Street Lighting stock to LED since late 2014 as the current stock reaches the end of its life and requires renewal. This was approved by Cabinet Member on 24th September 2014. To date this has allowed the Council to upgrade 6,000 lights, 16% of the stock. At the current rate it would take the Council 25 years to upgrade all of its stock.

7. A previous review of this service area (2012) undertook a survey of residents' views on street lighting (520 responses) which indicated strong support (83%) for moving towards LED lights.

8. This upgrading has the advantage of reducing energy costs and associated carbon emissions, reducing maintenance and improving the quality of the street lighting. The average saving on energy is 70% and the average saving on maintenance is 40%. These savings are based on experience from previous conversion to LED and on technical specifications for LED units.

9. The current budget for Street Lighting is £2.79m of which £1.8m is energy costs. The non-energy costs include staff, maintenance, bulb replacement, structural and electrical testing. The energy used by Street Lighting emits 2,361 tCO_2/yr based on 2019/20 figures accounting for over a quarter (26%) of the Council's carbon emissions. This is a significant contribution to the Council's carbon emissions and any reduction would support the Council's Climate Change Emergency Declaration and Action Plan.

10. The energy cost for the operation of the Council's Highway Street Lighting is increasing year-on-year at a rate above inflation and is expected to continue to do so in the coming years. This means that more money is required each year to fund this expenditure, to the detriment of other possible areas of expenditure (e.g. highway maintenance). It is estimated that, without intervention, the street lighting energy bill will double by 2030.

11. The Street Lighting Asset Project therefore aims to reduce the energy and maintenance costs associated with the operation of the Council's street lighting asset. This would be achieved by upgrading and making future-fit the existing street lighting asset, mainly through the replacement of existing lantern units with energy efficient LED equipment, along with replacement of street lighting assets that are life-expired. This will also significantly reduce the Council's carbon emissions, by almost a sixth (16%) based on 2019/20 figures.

12. This report summarises the full Business Case (attached) which has been developed using the Five Case Business Model methodology, considering the Strategic, Economic, Commercial, Financial and Management Case for each option, to assess strategic fit, value for money, viability, affordability and achievability in order to determine the most favourable option. A summary of this work is presented below.

13. The Business Case focused on the following short-list of options:

Option 1	Status Quo, Do Nothing or Do Minimum
Option 2	The Reference Project – Upgrading of all street lighting assets to LED using current technology which includes replacement of life expired assets such as lighting columns
Option 3	The More Ambitious – Upgrading of all street lighting assets to LED using innovative technology (solar units) which includes replacement of life expired assets such as lighting columns
Option 4	The Less Ambitious – Upgrading of street lighting assets that use the most energy which does not include the replacement of life expired assets such as lighting columns

14. A summary of the value for money assessment of the above options is shown in the 2 tables below:

	Capital Cost	Revenue Costs over 24 years (undiscounted)	Net Present Value	Estimated Annual kWh Savings	tCO2 e pa
Option 1	-	160,614,561			
Option 2	12,750,245	92,845,509	**25,913,564**	7,161,519	1,655
Option 3	N/A	N/A	N/A	N/A	N/A
Option 4	7,395,814	101,155,525	**23,922,487**	6,128,358	1,415

N.B. see paragraph 16 for explanation of N/A comment for Option 3

Evaluation Results	Option 1	Option 2	Option 3	Option 4
Economic appraisals	3rd	1st	NA	2nd
Benefits appraisal	3rd	1st	NA	2nd
Risk appraisal	3rd	1st	NA	2nd
Overall Ranking	3rd	1st	NA	2nd

N.B. see paragraph 16 for explanation of N/A comment for Option 3

15. The outcome of this work is the recommendation to proceed with Option 2 as the most favourable option, upgrading all street lighting assets by replacing all non-LED lights with LED units and replacing assets, such as lighting columns, that are life-expired. This option includes illuminated signs and bollards.

16. Innovative technology, in the form of solar powered equipment, is currently being prepared for testing and full evaluation, so it has not been possible to complete the evaluation of Option 3. However, commencing the project based on existing technology does not prevent subsequent installation of solar technology, if it demonstrates further added value and benefits, and does enable earlier realisation of benefits, including financial and energy savings.

17. The project will generally involve replacement of existing lanterns with new LED lanterns making use of existing columns. This process will be subject to checks to ensure that suitable new lantern units are specified and that if required lamp column locations will be amended or supplemented. The LED lanterns are widely used by other Local Authorities and there are established standards for the lantern units and their installation. This includes guidance that we comply with such as ILP (Institution of Lighting Professionals) Guidance Note 08/18 - Bats and artificial lighting in the UK; we will comply with all relevant guidance including avoiding impacts on wildlife.

18. Members should note that there is also a complementary project planned, to upgrade the Urban Traffic Control (UTC) Asset (e.g. traffic lights and other signals) to LED. This is to be funded by Liverpool City Region Combined Authority and will have no impact on the Council's budget, but it will provide further energy savings and contribution to the Council's carbon reduction target, a further 1% reduction based on 2019/20 figures.

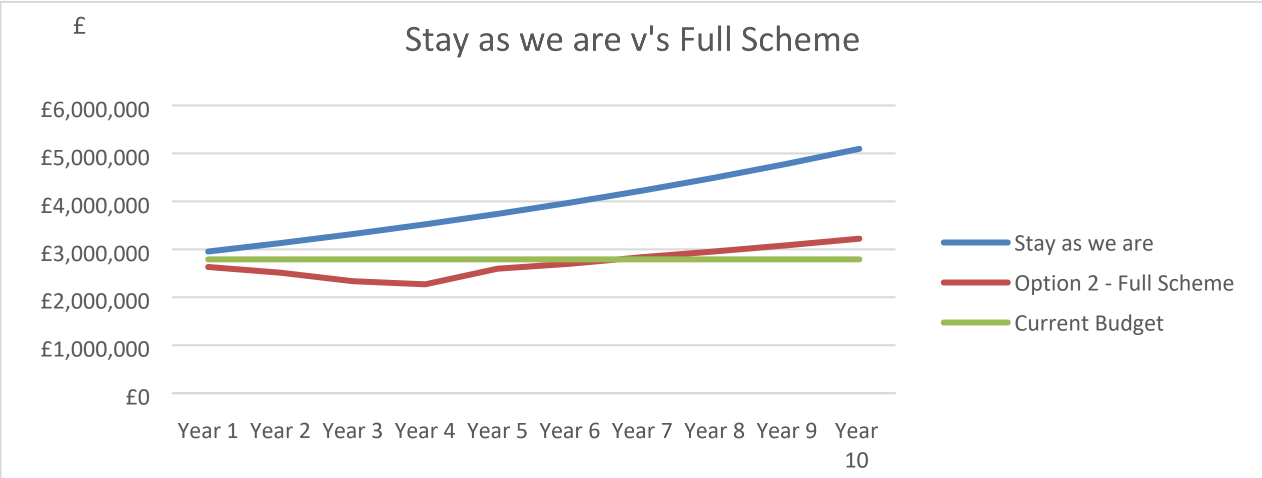
Benefits

19. There are three main benefits arising from the project:
    - carbon reduction; 16% reduction of the Council's carbon emissions
    - energy cost management – a reduction of 70% or £1.26m/yr based on current costs;
    - maintenance costs – a reduction of 40% or £395k/yr based on current costs

    There is a further, more qualitative benefit, from the improvement to the street environment provided by the whiter light from LED lanterns. The Business Case assessed the level of benefit delivered by each option, along with different funding options, and the programme and benefits delivery profile.

Costs and Affordability

20. The model used in the Business Case assumes an average energy price increase of 8% and other inflationary increases of 2% each year. It also assumes a policy change for prudential borrowing from 40 years to 20 years. The chart below shows the impact on the street lighting revenue budget comparing Option 1 (status quo) and Option2 (proposed option) with the current budget included for reference:



21. The recommended option would see £12.750m additional investment in street lighting, on top of the £0.300m per annum that is currently invested. This would bring total investment over the 4 years (2021/22 to 2024/25) to £13.950m. The breakdown of this is as follows:

- 2021/22 - £3.272m
- 2022/23 - £3.742m
- 2023/24 - £3.605m
- 2024/25 - £2.130m

22. If investment starts in 2021/22, the revenue costs are estimated at £2.63m, including the costs of funding the above capital, however this will depend on the timing of new lower energy equipment coming online. The current budget is £2.791m and would therefore result in an in-year saving of £0.158m. Repayment costs on the full amount of the PWLB Loan will be £783k/yr for 20 years (starting at £201k in year 2) and these are reflected in the above diagram. The current budget for street lighting is set out below.

Current Street Lighting Revenue Budget	
Energy Costs	£1,802,000
Street Lighting Planned - Electrical Testing	£105,000
Street Lighting Demand - Routine	£651,250
Street Lighting Planned - Renewals & Improvements	£20,000
Street Lighting Planned - Structural Testing	£25,000
Other Operating Costs	£187,450
TOTAL EXPENDITURE	**£2,790,700**

23. Over the course of the 4-year project, savings increase year-on-year to an approximate saving of £0.520m against the current base budget in 2024/25. This

contrasts with the significant budget growth that will be required over that period without intervention to reduce energy usage. After this point the annual saving against this base budget decreases due to the impact of electricity cost increases.

24. A summary of the financial appraisal for the first six years is shown in the table below:

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Preferred option	£	£	£	£	£	£	£	£
Capital PWLB		3,271,750	3,742,035	3,605,580	2,130,880			12,750,245
Capital Highways Maintenance		300,000	300,000	300,000	300,000			1,200,000
Total		**3,571,750**	**4,042,035**	**3,905,580**	**2,430,880**			**13,950,245**
Revenue Cost	2,790,700	2,631,787	2,512,381	2,335,349	2,270,338	2,596,612	2,698,860	
Existing Revenue Budget	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	
Saving		**158,913**	**278,319**	**455,351**	**520,362**	**194,088**	**91,840**	

25. If the savings generated over the first 6 years of the project are reserved for use in subsequent years, the need for revenue growth could be deferred a further six years.

26. The first table below sets out the revenue budget for 2025/26 including repayments for the PWLB and allowing for inflation up to this year. The second table shows the revenue budget for 2025/26 for option 1 (business as usual).

Revised Street Lighting Revenue Budget 2025/26 Option 2	
Energy Costs	£1,099,527
Street Lighting Planned - Electrical Testing	£115,928
Street Lighting Demand - Routine	£341,737
Street Lighting Planned - Renewals & Improvements	£22,082
Street Lighting Planned - Structural Testing	£27,602
Other Operating Costs	£206,960
PWLB Repayments	£782,776
TOTAL EXPENDITURE	**£2,596,612**

Revenue Budget 2025/26 Option 1 Business as usual	
Energy Costs	£2,647,729
Street Lighting Planned - Electrical Testing	£115,928
Street Lighting Demand - Routine	£719,033
Street Lighting Planned - Renewals & Improvements	£22,082
Street Lighting Planned - Structural Testing	£27,602
Other Operating Costs	£206,960
TOTAL EXPENDITURE	**£3,739,334**

27. The Business Case demonstrates the project is affordable over the life of the project with all capital repayment costs built in. Not carrying out this project will result in further budget issues in the coming year as energy costs increase.

28. Due to the complexity and duration of the project contingences have been included in the cost estimates but these will only be used if required and their use will be overseen through the robust project governance that will be established. Inclusion of these contingencies in the business case ensures that we are assessing the worst-case costs against the benefits. The key risk that it has not been possible to mitigate relates to the supply chain and any unforeseen delays associated with Brexit. For this reason, a contingency for delays has been allowed for.

29. Within the Business Case the sensitivity of the option and the overall case has been tested in relation to the assumption of 8% annual increase in energy costs. The preferred option in relation to economic appraisal changes from option 2 to option 4 when the annual increase of energy costs drops below 3%. In relation to benefits and risk the preferred option remains as option 2 in this sensitivity testing.

30. In relation to the overall Business Case even when the annual increase in energy costs drops to 3% both option 2 and option 4 demonstrate value for money compared with the option 1 (business as usual).

Delivery

31. The Council's existing contract allows for these works to be procured through the current Term Maintenance Contractor. They have been approached and have confirmed their capacity and willingness to undertake this work. If any capacity issues are encountered, a further procurement could be undertaken for the later stages of the project without delaying project commencement.

32. Given that this will be a four-year project, having considered the options, it is recommended that an in-house project team be established by enhancing the current in-house Street Lighting Team. The additional staff costs are included in the cost estimates and would be for the duration of the project. Subject to approval and inclusion in the budget it is anticipated that an order could be issued to the Contractor in April, enabling materials to be ordered with works likely to start July/August 2021.

Project Title: Street Lighting Asset

Business Case

Version No:1.0

Issue Date:

VERSION HISTORY

Version	Date Issued	Brief Summary of Change	Owner's Name
Draft	00.00.00	First Draft Version	Graham Lymbery
Final	03.02.21	Final Version	Graham Lymbery

Contents

1.0. EXECUTIVE SUMMARY

1.1. Introduction

This FBC seeks approval to invest £12,750,245 (PWLB) in the Street Lighting Asset Project.

1.2. Strategic Case

1.2.1. The Strategic Context

Sefton Council made a Climate Emergency Declaration in July 2019 which has led to the development of Sefton's Climate Change Emergency Plan and associated Action Plan. These seek to reduce Sefton Council's carbon emissions to net zero by 2030. The Council also wants to reduce energy costs as part of good financial management.

1.2.2. The Case for Change

The energy used by Street Lighting accounts for 26% of the Council's total carbon footprint (based on 2019/20 figures and conversion rate). These energy costs are increasing year-on-year at a rate above inflation and incur a significant cost to the Council.

The Urban Traffic Control (UTC) Asset also requires upgrading to LED and will reduce energy consumption.

In relation to climate change the energy used accounts for a significant portion of the carbon emissions that the Council seeks to reduce.

1.3. Economic Case

1.3.1. The Long List

Options focused around the reduction of energy usage by the street lighting asset, in some cases this requires replacement of life expired assets to facilitate this. Replacement of lantern units with LED units allows for dimming of the units to programmed times. A central management system was initially considered but it was obvious that the cost was disproportionate to the benefits.

The only option considered for UTC was replacement as this is the only viable option.

1.3.2. The Short List

The following short list of options emerged:

- **Option 1** – Status Quo, Do Nothing or Do Minimum

- **Option 2** – The Reference Project – Upgrading of all street lighting assets to LED using current technology which includes replacement of life expired assets such as lighting columns.
- **Option 3** – The More Ambitious – Upgrading of all street lighting assets to LED using innovative technology (solar units) which includes replacement of life expired assets such as lighting columns.
- **Option 4** – The Less Ambitious – Upgrading of street lighting assets that use the most energy which does not include the replacement of life expired assets such as lighting columns.

1.3.3. Key Findings

Street Lighting Asset	Undiscounted (£)	Net Present Cost (Value) (£)
Option 1 – Do Nothing/Do Minimum/Status Quo		
Revenue/ current	160,614,561	
Total costs	160,614,561	
	Undiscounted (£)	**Net Present Cost (Value) (£)**
Option 2 – Reference Project/ Outline Public Sector Comparator		
Capital Revenue/ current (incl Borrowing Repayments)	12,750,245 92,845,509	
Total	105,595,754	**(25,913,564)**
	tCo2 e pa 1,655*	**Estimated Annual kWh Savings** 7,161,519
	Undiscounted (£)	**Net Present Cost (Value) (£)**
Option 3 - Reference Project/ Outline Public Sector Comparator (more ambitious)		
Capital Revenue/ current Risk retained Optimism bias	This option cannot be assessed until the on-site testing has been completed.	

Total		
IRR	**tCo2 e pa**	**Estimated Annual kWh Savings**
	Undiscounted (£)	**Net Present Cost (Value) (£)**
Option 4 - Reference Project/ Outline Public Sector Comparator (less ambitious)		
Capital Revenue/ current	7,395,814 101,155,525	
Total	**108,551,339**	**(23,922,487)**
	tCo2 e pa 1,415*	**Estimated Annual kWh Savings** 6,128,358

*Using a conversion rate of 0.23104 to convert from kWh to tCO2

Option appraisal conclusions:

- Option 1 – this option ranks 3rd.
- Option 2 – this option ranks 1st.
- Option 3 – this option can't be assessed at this time.
- Option 4 – this option ranks 2nd.

UTC	Undiscounted (£)	Net Present Cost (Value) (£)
Option 2 – Reference Project/ Outline Public Sector Comparator		
Capital	**£1,053,853**	
Non-cash releasing benefits		
Total		**(6,918,928)**
	tCo2 e pa 120*	**Estimated Annual kWh Savings** 517,617

*Using a conversion rate of 0.23104 to convert from kWh to tCO2

1.3.4. Overall Findings: The Preferred Option

Summary of overall results

Evaluation Results	Option 1	Option 2	Option 3	Option 4
Economic appraisals	3rd	1st	NA	2nd
Benefits appraisal	3rd	1st	NA	2nd
Risk appraisal	3rd	1st	NA	2nd
Overall ranking	**3rd**	**1st**	**NA**	**2nd**

Overall conclusions – option 2 is the preferred option.

1.4. Commercial Case

1.4.1. Procurement Strategy

It is intended to use the existing service contracts.

1.4.2. Required Services

Procurement and installation of LED lighting units and replacement of life expired assets required to undertake replacement of lighting units.

1.4.3. Potential for Risk Transfer and Potential Payment Mechanisms

Payment will be as specified in the existing contract. The main risk transfer is for the contractor to purchase the lantern units removing elements of programming risk from the Council.

1.5. Financial Case

1.5.1. Financial Expenditure

Summary of financial appraisal

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	£	£	£	£	£	£	£	£
Preferred option:								

Capital PWLB		3,271,750	3,742,035	3,605,580	2,130,880			12,750,245
Capital Highways Maintenance		300,000	300,000	300,000	300,000			1,200,000
Total		3,571,750	4,042,035	3,905,580	2,430,880			13,950,245
Funded by:								
Existing	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	
Saving		158,913	278,319	455,351	520,362	194,088	91,840	
Total	2,790,700	2,631,787	2,512,381	2,335,349	2,270,338	2,596,612	2,698,860	

1.5.2. Overall Affordability and Balance Sheet Treatment

The business case demonstrates the project is affordable over the life of the project with all capital repayment costs built in, based on the assumptions highlighted in this document. Not carrying out this project will result in further budget issues in the coming year

A contribution from the LTP programme (capital) is being invested in each of the next 4 years, which limits the prudential borrowing costs.

The scheme will generate savings for the first 6 years of the project without increasing the current budget for inflation. It is recommended that these savings are reserved each year which it is anticipated that there should be no revenue implications until year 12 (where the energy price increases will have caught up).

The model assumes an average energy price increase of 8% and other inflationary increases of 2% each year. It also assumes a policy change for prudential borrowing from 10 years to 20 years.

Sensitivity analysis has been provided for changes in energy prices, borrowing rates and capital costs.

For the UTC asset this will be procured and funded by Liverpool City Region Combined Authority. As such it will have no impact on the Council's balance sheet but it will contribute to the Council's carbon reduction target.

1.6. Management Case

1.6.1. Project Management Arrangements

Due to the duration of the project an in-house project team will be established that delivers both this project and the day-to-day functions associated with this service area.

1.6.2. Benefits Realisation and Risk Management

Benefits realisation has been programmed. A risk register has been established and priced risk has been included in the project costings.

1.6.3. Post Project Evaluation Arrangements

Post project review will be undertaken in accordance with best practice.

1.7. Recommendation

It is recommended that option 2 be progressed with delivery by the current service contractors and an in-house project team established to manage the project.

2.0. THE STRATEGIC CASE

2.1. Organisational Overview

Sefton Council is the Highway Authority and as part of this role maintains and operates Street Lighting on the highway network, this includes all street lighting that illuminates the highway and lighting that illuminates signs that provide information for the road user. Sefton Council also operates traffic signals (Urban traffic Control – UTC) on the highway network.

2.2. Business Strategies

The main business strategies that are relevant are as follows:

Sefton Council made a Climate Emergency Declaration in July 2019 which has led to the development of Sefton's Climate Change Emergency Plan and associated Action Plan. These seek to reduce Sefton Council's carbon emissions to net zero by 2030. The energy used by Street Lighting accounts for 26% of the Council's total carbon footprint (based on 2019/20 figures).

Highway Authorities have a duty of care to the road user. This duty of care does not imply any duty on the Highway Authority to keep the public lighting lit. However, an authority responsible for the maintenance of public lighting should be able to demonstrate that they have systems in place to maintain the public lighting equipment in a safe condition, including the detection of dangerous equipment.

As the Highway Authority Sefton Council has to comply with the relevant guidance and legislation relating to highways. This includes legislation relating to the type of equipment used such as the move away from halogen lamps in traffic signals by 2023.

2.3. Other Organisational Strategies

As a Council dealing with public funds we have a duty to use those funds effectively and efficiently. Our approach to setting budgets and some of the financial challenges that the Council face are set out in our budget reports. These clearly indicate that the Council is under financial pressure and as such any savings or cost avoidance that we can make without detriment to our outcomes we should investigate.

2.4. Investment Objectives

The investment objectives for this project are as follows:

- investment objective 1: Reduction of carbon emissions
- investment objective 2: Reduction in energy consumption
- investment objective 3: Reduction in long term maintenance requirements
- investment objective 4: Improvement in the street environment

2.5. Existing Arrangements

Sefton Council has 36,164 street lighting assets. This total comprises a combination of lighting columns, illuminated & non-illuminated bollards, illuminated signs, refuge beacons, ornamental columns, zebra beacons and wall mounted units. The Authority predominantly uses a mix of high-pressure sodium, low pressure sodium, ceramic metal halide and LED lamp types. Residential roads are typically lit with lamps of 70w and below and main routes lit with lamps between 90w and 250w. Although the large majority of this equipment is in good condition approximately 22% of the Authority's Street Lighting stock has exceeded their expected design life, placing such columns in the category of potentially structurally defective. These columns present a much greater risk of catastrophic failure and are categorised as high risk.

Sefton Council has 261 Traffic Signal installations comprising of junctions, pelican, puffin, toucan & pegasus crossings. 111 of these installations have LED type lamp bulbs, with the remaining 150 having Non-LED type lamp bulbs. The replacement bulbs for the Non-LED lamp type are being phased out by 2023 with companies currently not manufacturing new stock (Due to European Law). As result the 150 Non-LED type installations we have within the authority are at risk of becoming unmaintainable and requiring switching off / decommissioning. Which represents a risk to both pedestrian and road user safety, and is why we have categorised it as High Risk.

Sefton has four members of staff responsible for the management of the street lighting and UTC assets supported by term maintenance contractors, they also have administrative and management support. The staff members are responsible for design and specification of new street lighting and UTC systems, maintaining the database of the Council's asset, reviewing safety and condition of the asset, issuing instructions to the contractor for maintenance and replacement of the asset, operation of the asset, processing of invoices and responding to requests for service and complaints.

For the purposes of this business case the options for UTC and Street Lighting will be dealt with separately. This is because there will only be two options for UTC and this is likely to be funded via a different route to the Street Lighting.

Table 1: Existing Costs

Existing costs (£)	Street Lighting	Urban Traffic Control	Total
Revenue	2,791,000	407,000	3,198,000
Capital	300,000	135,000	435,000
Duration of contract	HM20 Street Lighting Maintenance and	Term Service Contract Intelligent Transport	

	Installation 2018 - 2024	Systems Maintenance & Installation 2018 - 2028	

2.6. Business Needs

The needs can be split into three key areas:

- The need to reduce energy consumption
- The need to reduce the backlog of assets beyond their design life
- The need to improve the operation of our asset

Expanding on these in turn:

Street lighting and UTC uses 44% of the electricity consumed by the Council and this not only has a significant cost but is a cost that we expect to increase year on year at a rate in excess of inflation. The breakdown of electricity costs is included in appendix 5.

We have circa 8,000 columns that are beyond their design life, this does not mean that they are about to fail but it does mean that they are at higher risk of failure and require regular inspection. The estimate from the technical officers is that 75% of these columns require replacing at this time. New lantern units require less maintenance reducing future costs.

Advances in technology allow modern LED units to be operated much more flexibly either from the column or remotely. This can include dimming at certain times, fault reporting, altering operating parameters. Adoption of this technology could improve the service and make it more adaptive to future needs. New lantern units require less maintenance reducing future costs. Further, the use of LED has environmental benefits to the street environment such as reduced light pollution and improved visibility for road users.

We have a significant proportion of the UTC systems using halogen bulbs which will become unavailable due to legislative changes by 2023. This will effectively mean that these assets are beyond their design life and need upgrading to accept LED lamps. This may also require replacement of poles and controller units.

2.7. Potential Business Scope and Key Service Requirements

The options focus on reduction of energy as this relates to both reduced carbon emissions and operational costs. The initial options for street lighting assets seek to maximise the energy reductions and considers this over a 20 year period (the life span of the typical lighting unit). A subsequent option seeks to maximise the energy reductions for minimum investment so that we can consider the incremental cost benefit for the increased reduction of energy usage in the first option.

- Maximum reduction of energy usage through change in equipment (established technology) with no additional net cost over twenty years

- Maximum reduction of energy usage through change in equipment (innovative technology) with no additional net cost over twenty years
- Maximum reduction of energy usage with minimum investment through change in equipment (established technology)
- Maximum reduction of energy usage with minimum investment through change in equipment (innovative technology)

For UTC the option considered is the replacement of all existing halogen equipment with LED. This combined with the baseline option of continuing as we are comprise the only viable options.

The options within these ranges are considered within the economic cases.

Table 2: Business Scope and Key Service Requirements for Street Lighting Asset

	Minimum	**Intermediate**	**Maximum**
Potential business scope	Existing Technology	Innovative Technology	Existing or Innovative Technology
Key service requirements	Reduction of energy usage Provision of suitable illumination on the highway and safe operation of UTC	Reduction of energy usage Provision of suitable illumination on the highway and safe operation of UTC	Maximum reduction of energy usage Provision of suitable illumination on the highway and safe operation of UTC

2.8. Main Benefits Criteria

Satisfying the potential scope for this investment will deliver the following high-level strategic and operational benefits.

Table 3: Investment Objectives and Benefits

Investment objectives	**Main benefits criteria by stakeholder group**
Investment objective 1	**Reduction of Carbon Emissions** Contributing to the reduction of climate change and associated risks – global and local benefits.
Investment objective 2	**Reduction of Energy Consumption** Benefit to Sefton residents through the management of costs incurred to provide the highway service

Investment objective 3	**Reduction in long term Maintenance Requirements** Benefit to Sefton residents through the management of costs incurred to provide the highway service
Investment objective 4	**Improvement in the Street Environment** A switch to LED technology for the street lighting asset provides a white light that enables greater depth perception and improved CCTV images. The technology also allows for dimming at certain times which helps to reduce light disturbance in the environment. For traffic signals the lights will be clearer and there will be fewer failures increasing safety.

2.9. Main Risks

The main business and service risks associated with the potential scope for this project are shown below, together with their counter measures.

Table 4: Main Risks and Counter Measures

Main Risk	Counter Measures
Design Solar units are a new technology	Undertake a test of solar units to establish suitability, efficiency and cost.
Development • Does current supplier have capacity to deliver	Early engagement with current contractor
• Specification of lantern units	Mechanism is already established in current contract
• Timescale	An experienced project manager has been appointed to develop the business case and establish the project
• change management and project management	Mechanisms are set out in growth board guidance and in the contract

Implementation risks	
• supplier	Early engagement following approval of the business case. Planned for circa six months prior to first installation. If current contractor can't deliver we have scope to establish a framework
• timescale	Elements such as development of project team can be undertaken prior to approval of business case
• specification and data transfer	Transfer of specification and data is already established under current contract and can be transferred to a new framework
• cost risks	Costs are already established in the current contract. There are risks around lantern units associated with Brexit. Contingency and priced risk have been incorporated into the business case.
• change management and project management	Resilience is being designed into the project management team. The scope of the project is well defined so change management is a minimal risk.
• training and user	An allowance has been made in the programme for training of any new staff members to the project delivery team.

Operational risks • supplier • availability • performance • operating cost • project management	 There are multiple lantern units specified so there will be options. We have the option to develop a framework for delivery of the project. Risk managed through early engagement KPI's are included in the contract and a programme for delivery will be agreed with the contractor. In the event of unsatisfactory performance we can develop a framework for deliver. Operating cost is beyond this projects brief, reduction of energy consumption is the focus. The method used relates directly to the current billing method. Maintenance costs are based on the manufacturer's specification and staff experience. The project team will be developed and appointed to have the skills and capacity required for this project
Termination risks	Alternative supply of service can be procured through a framework

2.10. Constraints

The project is subject to the following constraints:

- Procurement Regulations
- Legal requirements

2.11. Dependencies

The project is subject to the following dependencies that will be carefully monitored and managed throughout the lifespan of the scheme.

- Supply chains
- Contractor Performance
- For UTC – Liverpool City Region Combined Authority who will be procuring the works

3.0. THE ECONOMIC CASE

3.1. Critical Success Factors

The critical success factors (CSFs) are as follows:

- Strategic fit – how well does the option meet the investment objectives
- Value for money – how well does the option
  - Maximise the return on investment
  - Minimise associated risk
- Achievability
  - How deliverable is the option by the Council
  - To what extend do the requirements of the option match the skills and resources available
- Supply side capacity and capability
  - To what extent is the option attractive to suppliers
  - To what extent does the option match the supplier's ability to deliver
- Affordability – to what extent does the option
  - Meet our procurement rules
  - Match funding constraints

3.2. Short-Listed Options

Option 1 – the do nothing, do minimum or status quo

This option provides the benchmark for VFM and is predicated upon the following parameters:

Scope: Operation of the Street Lighting and UTC Asset

Solution: Continue with current operation of the street lighting and UTC asset including ad-hoc replacement of life expired assets.

Service delivery: Continuation of current operation with in-house staff and contractor.

Implementation: Continuation of current operation.

Funding: The current revenue budget would need to be increased year on year to meet rising energy costs.

Option 2 – reference project or outline Public Sector Comparator (PSC)

This option provides an outline of the 'preferred way forward' (**not** preferred option) and is predicated upon the following parameters drawn from the long list for:

Scope: Operation of the Street Lighting and UTC Asset

Solution: Improve the assets through the installation of LED technology and replacement of life expired assets

Service delivery: Management by a project team, delivery by a contractor which could be existing contractor or new

Implementation: Could be let as a single contract, as a number of lots or as a rolling programme

Funding: Capital funding secured by the Council and revenue budget for ongoing operational costs

Option 3 – the reference project or outline PSC (more ambitious) option (note – this option can only be assessed when the technology has been tested and costs established)

This option provides an outline of a more ambitious version of the preferred way forward.

Scope: Operation of the Street Lighting Asset

Solution: Improve the assets through the installation of LED technology and replacement of life expired assets along with reduction in energy requirement through the use of innovative technology

Service delivery: Management by a project team potentially with an industry partner, delivery by a contractor which could be existing contractor or new

Implementation: Could be let as a single contract, as a number of lots or as a rolling programme

Funding: Capital funding secured by the Council and revenue budget for ongoing operational costs

Option 4 – the reference project or outline PSC (less ambitious) option

This option provides an outline of a less ambitious version of the preferred way forward.

Scope: Operation of the Street Lighting Assets that consume the most energy

Solution: Improve the assets through the installation of LED technology and replacement of life expired assets

Service delivery: Management by a project team potentially with an industry partner, delivery by a contractor which could be existing contractor or new

Implementation: Could be let as a single contract, as a number of lots or as a rolling programme

Funding: Capital funding secured by the Council and revenue budget for ongoing operational costs

Options 1 and 2 will be presented separately for the Street Lighting Asset and UTC.

3.3. Economic Appraisal

3.3.1. Introduction

This section provides a detailed overview of the main costs and benefits associated with each of the selected options.

3.3.2. Estimating Benefits

Methodology

The energy reduction benefits associated with each option were quantified using a spreadsheet detailing each asset, current energy consumption, future energy consumption under the option and the cost of each option.

Other benefits were identified as part of a risk and benefit workshop held on the 26th of August 2020 and subsequent correspondence with the project team who could not attend on this date. Key attendees were the Project Sponsor, Procurement, Street Lighting, Energy and Project Manager.

Description, sources and assumptions

The benefits identified fell into the following main categories. In each case, the sources and assumptions underlying their use are explained.

Works costs are based on contract rates for both the replacement option and future maintenance with a 2.5% allowance for inflation year on year. Energy costs are based on the current year with an 8% allowance for inflation year on year.

Energy savings are quantified from the above information. Other benefits are qualitative rather than quantitative and are dealt with through description.

Table 6: Main Benefits

Type	Direct to Organisation(s)	Indirect to Organisation(s)
Quantitative • Energy reduction • Carbon Reduction	KWh TCO2	Financial management Contribution to Climate Change Emergency Plan
Cash releasing • Energy cost • Maintenance	£* £*	Financial Management Reliability of asset
	***The above are accounted for in the financial case appraisals**	***The above are NOT accounted for in the financial case appraisals***
Qualitative (or non-quantifiable) • Street Environment	Reduced need for maintenance	Improvements associated with white light, depth perception, safety, etc
	Subject to weighting and scoring – see below	***Subject to weighting and scoring – see below***

3.3.3. Estimating Costs

Methodology

Costs were based on contract rates for works and top of grade for staff costs.

Description, sources and assumptions

Given that costs have been based on contract rates no optimism bias has been included for the works costs. There is uncertainty around the number of columns that will require replacement but the assessment process for the columns has identified 8,000 that are category 4 (at the end of their life) of which engineering judgement has been used to estimate that 6,000 will need replacing as part of this programme. Costs of the project team are based on an assessment of the tasks that will need to be undertaken and associated estimates of staff time. The potential variability of column replacement and staff costs within the overall costs is minimal so no optimism bias has been applied to these elements.

Costs for illuminated bollards and traffic signs are included in option 2 but not in option 4. Their case for inclusion is weaker in relation to payback period but stronger in relation to energy reduction and maintenance reduction (both backlog and ongoing maintenance). This allows for options to be tested against all the investment objectives and funding sources.

A further tranche of illuminated traffic signs have been included in option 2. For these the existing 1.3w LED gear tray was installed as part of a very early energy saving initiatives with LED around 2013-14. At the time it was deemed adequate but with hindsight it appears that this is not actually the case. Although significant energy savings were made, on site performance was poor. Upgrading these increases energy usage and therefore does not have a payback period. However, given that it was undertaken as an early approach to switching to LED it is appropriate to put forward the option within this business case to address this issue. There is a further opportunity in relation to illuminated traffic signs as recent changes in guidance mean that some could be replaced with a reflective sign, reducing both energy consumption and maintenance liability.

Whilst we have initial capital costs for the solar option, based on the specification from an external partner, at this time we do not know what the ongoing maintenance costs would be and can not be confident that the units will perform as expected. For this reason the solar option will be tested first to establish performance and further research will be undertaken to establish maintenance costs. There is nothing in the options using existing technology that precludes later inclusion of the solar option. The business case has been set out to allow for the later inclusion and assessment of this option.

For UTC the cost estimates are from Liverpool City Region Combined Authority (LCRCA) who will tender the works and fund them. Given this the works cost risks are not borne by Sefton.

3.3.4. Net Present Cost Findings

Detailed economic appraisals for each option have been undertaken.

The short-listed options have been risk-adjusted to account for the ‘risk retained’ (in £s) by the organisation under each option.

The following table summarises the key results of the economic appraisals for each option:

Table 7: Key Results of Economic Appraisals

Street Lighting Asset	Undiscounted (£)	Net Present Cost (Value) (£)
Option 1 – Do Nothing/Do Minimum/Status Quo		
Revenue/ current (24 yr cash flow)	160,614,561	
Non-cash releasing benefits	-	-
Total	160,614,561	
	Undiscounted (£)	**Net Present Cost (Value) (£)**
Option 2 – Reference Project/ Outline Public Sector Comparator		
Capital Revenue/ current (incl cash releasing benefits)	12,750,245 92,845,509	
Non-cash releasing benefits	-	-
Total	105,595,754	**(25,913,564)**
	tCo2 e pa 1,655**	**Estimated Annual kWh Savings** 7,161,519
	Undiscounted (£)	**Net Present Cost (Value) (£)**
Option 3 - Reference Project/ Outline Public Sector Comparator (more ambitious)		
Capital Revenue/ current (incl cash releasing benefits) Risk retained* Optimism bias*	This option cannot be assessed until the on-site testing has been completed.	
Non-cash releasing benefits		
Total		

IRR	tCo2 e pa	Estimated Annual kWh Savings
	Undiscounted (£)	**Net Present Cost (Value) (£)**
Option 4 - Reference Project/ Outline Public Sector Comparator (less ambitious)		
Capital Revenue/ current (incl cash releasing benefits)	7,395,814 101,155,525	
Non-cash releasing benefits	-	-
Total	**108,551,339**	**(23,922,487)**
	tCo2 e pa 1,415**	**Estimated Annual kWh Savings** 6,128,358

**Using a conversion rate of 0.23104 to convert from kWh to tCO2

UTC	Undiscounted (£)	Net Present Cost (Value) (£)
Option 2 – Reference Project/ Outline Public Sector Comparator		
Capital Revenue/ current Risk retained Optimism bias	**£1,053,853**	
Non-cash releasing benefits		
Total		**(6,918,928)**
IRR	**tCo2 e pa** 120**	**Estimated Annual kWh Savings** 517,617

3.3.5. Option Ranking

The results are summarised and shown in the following Table:

Table 8: Summary of Results

Option	**Description**	**Ranking**	
		NPV (£s)	Rank
1	Street Lighting Asset - Do Nothing/Do Minimum/Status Quo	**-**	3
2	**Street Lighting Asset - Reference Project/ Outline Public Sector Comparator**	**25,913,564**	**1**
3	Street Lighting Asset - Reference Project/ Outline Public Sector Comparator (more ambitious)	**-**	-
4	Street Lighting Asset - Reference Project/ Outline Public Sector Comparator (less ambitious)	23,922,487	2

3.3.6. Option Appraisal Conclusions

The key findings are as follows:

Option 1 – do nothing/do minimum/status quo

<u>This option ranks 3rd</u> but option 3 has yet to be assessed. It does not reduce carbon emissions, energy, maintenance backlog or future maintenance costs.

Option 2 – reference project/ outline PSC

<u>This option ranks 1st</u> based on its NPV.

It provides a reduction of tCo2 e pa 1,655 (Using a conversion rate of 0.23104 to convert from kWh to tCO2) and estimated annual kWh savings of 7,161,519 as well as clearing the maintenance backlog and having the maximum reduction in future maintenance costs.

Option 3 – reference project/ outline PSC (more ambitious)

This option cannot be assessed until the on-site testing has been completed.

Option 4 – reference project/ outline PSC (less ambitious)

This option ranks 2nd based on its NPV.

It provides a reduction of tCo2 e pa 1,415 (Using a conversion rate of 0.23104 to convert from kWh to tCO2) and estimated annual kWh savings of 6,128,358, it does not clear the maintenance backlog and does not achieve the maximum reduction in future maintenance costs.

3.3.7. *Qualitative Benefits Appraisal*

A workshop was held on 3rd November 2020 to evaluate the qualitative benefits associated with each option.

3.3.8. *Methodology*

The appraisal of the qualitative benefits associated with each option was undertaken by:

- identifying the benefits criteria relating to each of the investment objectives
- weighting the relative importance (in %s) of each benefit criterion in relation to each investment objective
- scoring each of the short-listed options against the benefit criteria on a scale of 0 to 9
- deriving a weighted benefit score for each option.

3.3.9. *Qualitative Benefits Criteria*

The benefits criteria were weighted as follows for each investment objective:

Table 9: Qualitative Benefits Criteria

Investment Objectives	Qualitative Benefits	Weight
Reduction of Carbon Emissions	• Contribution to Climate Change Emergency Plan	50%
Reduction of Energy Consumption	• Reduced impact of cost variation of electricity	5%
Reduction in long term Maintenance Requirements	• Removal of maintenance backlog • Reduction in future maintenance	20%
Improvement in the Street Environment	• a more controllable light source that concentrates light on where it's needed with less light pollution • a reduction in 'sky glow', glare and light intrusion into homes and gardens • a 'white' light which improves visibility for road users, compared to traditional 'orange' street lights • instant light with no warm-up time	25%

3.3.10. Qualitative Benefits Scoring

Benefits scores were allocated on a range of 0-9 for each option and agreed by discussion by the workshop participants to confirm that the scores were fair and reasonable.

3.3.11. Analysis of Key Results

The results of the benefits appraisal are shown in the following table:

Table 10: Benefits Appraisal Results

Benefit Criteria and Weight	**Option 1**		**Option 2**		**Option 3**		**Option 4**	
Raw (R) and weighted (W)scores	R	W	R	W	R	W	R	W
Reduction of Carbon Emissions	1	0.5	7	3.5			6	3
Reduction of Energy Consumption	1	0.05	7	0.35			6	0.3
Reduction in long term Maintenance Requirements	1	0.2	5	1			3	0.6
Improvement in the Street Environment	1	0.25	6	1.5			4	1
Total		1.0		5.85				4.9
Rank	**3**		**1**				**2**	

The key considerations that influenced the scores achieved by the various options were as follows:

- ***Option 1 – do nothing/do minimum/status quo:***

  This option ranks 3rd but at this stage option 3 is yet to be assessed.

  This option provides a baseline for comparison, it does nothing to reduce the current energy consumption or contribute to carbon reduction. It continues to address maintenance issues on a reactive basis and does nothing to reduce the backlog or reduce future maintenance. It continues to provide illumination with current lanterns so does not realise any improvements to the street environment.

- ***Option 2 – reference project/ outline PSC***

  This option ranks 1st.

  This option uses established technology to maximise the reduction of energy consumption and therefore contribute to carbon reduction. It maximises the reduction of the backlog of column replacement and future maintenance. It provides illumination across all stock with white light and so realises maximum improvements to the street environment.

  Key considerations influencing its score are that It provides a reduction of tCo2 e pa 1,655 and estimated annual kWh savings of 7,161,519 as well as clearing the maintenance backlog and having the maximum reduction in future maintenance costs. And maximising environmental benefits.

- ***Option 3 – reference project/ outline PSC (more ambitious)***

  This option cannot be ranked until the trial is completed and relevant information collated.

  This option uses established and innovative technology to maximise the reduction of energy consumption and therefore contribute to carbon reduction. It maximises the reduction of the backlog of column replacement. Future maintenance is reduced compared to the baseline option but the innovative technology requires more maintenance than established technology. It provides illumination across all stock with white light and so realises maximum improvements to the street environment.

- ***Option 4 – reference project/ outline PSC (less ambitious)***

  This option ranks 2nd

  This option uses established technology to reduce energy consumption and therefore contribute to carbon reduction. This option focuses on those assets with the highest energy usage so focusses on works to the assets with the shortest pay back periods. It does not contribute to the reduction of the backlog of column replacement and only reduces some of the future maintenance. It provides illumination with white light across some of the asset and so realises some improvements to the street environment.

  Key considerations influencing its score are that it provides a reduction of tCo2 e pa 1,415 and estimated annual kWh savings of 6,128,358, it does not clear the maintenance backlog and does not achieve the maximum reduction in future maintenance costs. It does not maximise the environmental benefits.

3.3.12. Risk Appraisal – Unquantifiables

A workshop was held on 26th August 2020 to evaluate the risks associated with the project and each option.

A review of the risk register shows that those risks that are quantifiable relate to programme leading to a potential delay in cost avoidance and procurement where if a new framework is required there may be a change in rates. In relation to programme it is considered reasonable to cost in a 6 month delay which would relate to the financial cost of 6 months of potential costs avoided from the cash flow forecast, estimated to be £150,000. In relation to a new framework whilst there is a risk of a cost uplift there is equally a possibility of a cost reduction due to the scale of the work. A cautious approach to this would be to include 10% of the works cost as priced risk. It would be normal to include a further contingence sum of 10%.

3.3.13. Methodology

Risk appraisal has been undertaken and involved the following distinct elements:

- identifying all the possible business and service risks associated with each option
- assessing the impact and probability for each option
- calculating a risk score.

3.3.14. Risk Scores

The workshop assigned the risk scores shown in the following table on the basis of participants' judgment and assessment of previous procurements. These relate to option specific risk. A more detailed assessment of the individual risks is shown in the risk register and covers risks that apply to all options for do-something.

The range of scales used to quantify risk was as follows:

- low equals 2
- medium equals 3
- high equals 5.

Table 11: Summary of The Risk Appraisal Results

Summary of Risk Appraisal Results (Pr = probability)	**Risk category no.**	**Impact**	**Option 1 – do minimum**		**Option 2 – PSC**		**Option 3 – PSC more ambitious**		**Option 4 – PSC less ambitious**	
			Pr.	Tot.	Pr.	Tot.	Pr.	Tot.	Pr.	Tot.

Failure to deliver Sefton's Climate Change Emergency Plan		5	5	25	2	10			3	15
Energy Price inflation		2	5	10	2	4			3	6
Life expired asset failure		5	2	10	1	5			2	10
Total				45		19				31
Rank				3		1				2

The key considerations that influenced the scores achieved by the various options were as follows:

- ***Option 1 – do nothing/ do minimum/ status quo***

  This option ranks 3rd but option 3 can't be assessed until the on-site testing is completed.

  This option provides a baseline for comparison, it does nothing to reduce the current energy consumption or contribute to carbon reduction. It continues to address maintenance issues on a reactive basis and does nothing to reduce the backlog or reduce future maintenance.

- ***Option 2 – reference project/ outline PSC***

  This option ranks 1st.

  This option uses established technology to maximise the reduction of energy consumption and therefore contribute to carbon reduction. It maximises the reduction of the backlog of column replacement and future maintenance.

  Key considerations influencing its score are that this option maximises carbon, energy and maintenance reductions.

- ***Option 3 – reference project/ outline PSC (more ambitious)***

  This option cannot be ranked until the trial is completed and relevant information collated.

  This option uses established and innovative technology to maximise the reduction of energy consumption and therefore contribute to carbon reduction. It maximises the reduction of the backlog of column replacement. Future maintenance is reduced compared to the baseline option but the innovative technology requires more maintenance than established technology. It cannot be assessed until such time as on-site testing has been completed.

- **Option 4 – reference project/ outline PSC (less ambitious)**

  This option ranks 2nd.

  This option uses established technology to reduce energy consumption and therefore contribute to carbon reduction. This option focuses on those assets with the highest energy usage so focusses on works to the assets with the shortest pay back periods, given this it does not maximise energy and carbon reduction. It does not contribute to the reduction of the backlog of column replacement and only reduces some of the future maintenance.

  Key considerations influencing its score are that this option does not maximises carbon, energy and maintenance reductions.

3.4. The Preferred Option

The results of investment appraisal are as follows:

Table 12: Summary of Overall Results

Evaluation Results	Option 1	Option 2	Option 3	Option 4
Economic appraisals	3rd	1st	NA	2nd
Benefits appraisal	3rd	1st	NA	2nd
Risk appraisal	3rd	1st	NA	2nd
Overall Ranking	**3rd**	**1st**	**NA**	**2nd**

Conclusion: the preferred option is option 2.

3.5. Sensitivity Analysis

The method used was switching. The key uncertain cost assumption was energy costs increasing by 8% per year so this was modelled to see at what value the options would switch.

3.5.1. Results of Switching Values

Table 13 shows the value (in %) that the assumed 8% annual increase of energy costs would have to be reduced by for the preferred option to change in the overall ranking of options based on the NPV.

Table 13: Changes (%) Required to Equate with the Preferred Option

Change in Costs (%)	Option 1	Option 2 Preferred Option	Option 3	Option 4
NPV		62%*		

*(*This equates to an assumed annual increase of energy costs of 3%).*

A further sensitivity analysis has been undertaken to assess the impacts of changes in interest rates and changes in the rate of inflation for energy costs.

		Capital Cost Sensitivities					Energy Sensitivities		
	Recommended Option	**Sensitivity 1**	**Sensitivity 2**	**Sensitivity 3**	**Sensitivity 4**	**Sensitivity 5**	**Sensitivity 6**	**Sensitivity 7**	**Sensitivity 8**
	Option 2 - Full Scheme	**Borrowing Rate increases by 0.5%**	**Borrowing Rate increases by 1.0%**	**Capital Costs Increase by 5%**	**Capital Costs Increase by 10%**	**Capital Costs Increase by 15%**	**Energy Inflation Reduced from 8% to 7%**	**Energy Inflation Reduced from 8% to 6%**	**Energy Inflation Increased from 8% to 10%**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Initial Investment									
(a) Capital Cost	(12,750)	(12,750)	(12,750)	(13,388)	(14,025)	(14,663)	(12,750)	(12,750)	(12,750)
(b) Interest Payments	(2,905)	(3,669)	(4,454)	(3,051)	(3,196)	(3,341)	(2,905)	(2,905)	(2,905)
Other Costs									
(c) Operating Costs	(20,368)	(20,368)	(20,368)	(20,368)	(20,368)	(20,368)	(20,368)	(20,368)	(20,368)
Benefits									
(d) Energy Savings	73,113	73,113	73,113	73,113	73,113	73,113	64,076	56,225	95,491
(e) Energy Costs	(129,935)	(129,935)	(129,935)	(129,935)	(129,935)	(129,935)	(112,981)	(98,390)	(172,528)
(f) Net Council funding over the term	(92,846)	(93,610)	(94,394)	(93,628)	(94,411)	(95,194)	(84,929)	(78,189)	(113,060)
Variance from the Recommended Option - (Increased) / Reduced Funding Requirement	0	(764)	(1,548)	(783)	(1,566)	(2,348)	7,917	14,656	(20,215)

3.5.2. Key Observations

This is a significant reduction of the assumed annual rate of inflation for energy costs but still results in a positive NPV for options 2 and 4. Option 2 would still be preferable in relation to other benefits.

3.6. Preferred Option

The preferred option remains option 2.

4.0. THE COMMERCIAL CASE

4.1. Introduction

The service to be procured can be considered in two parts, the equipment such as the lantern units and the installation. There are a range of suppliers and contractors who can provide these services but the Council currently employs contractors on term maintenance contracts which includes rates for this type of work. Procurement of equipment can be undertaken by either the contractor or the Council.

A key element of the service provision will be the capacity and capability to deliver and as such the phasing and packaging of the works will be an important consideration.

4.2. Required Services

These are as follows:

- Supply of equipment including lighting units, poles and control units
- Installation of equipment and other assets

4.3. Potential for Risk Transfer

The general principle is that risks should be passed to 'the party best able to manage them', subject to value for money.

This section provides an assessment of how the associated risks might be apportioned between the Council and the Contractor

Table 15: Risk Transfer Matrix

Risk Category	Potential allocation		
	Public	Private	Shared
1. Design risk	✓	✓	✓
2. Construction and development risk			✓
3. Transition and implementation risk			✓
4. Availability and performance risk			✓
5. Operating risk	✓		
6. Variability of revenue risks	✓		
7. Termination risks	✓		

8. Technology and obsolescence risks			✓
9. Control risks	✓		
10. Residual value risks	✓		
11. Financing risks	✓		
12. Legislative risks	✓		
13. Other project risks	✓		

4.4. Proposed Charging Mechanisms

The organisation intends to make payments in relation to the proposed products and services as per the current contract.

4.5. Proposed Contract Lengths

The work will be divided into lots based on management areas. These will broadly represent 12 months work which gives the client the opportunity to review quality and if necessary put in place alternative delivery methods.

4.6. Proposed Key Contractual Clauses

As per the current contract.

4.7. Personnel Implications (Including TUPE)

It is anticipated that the TUPE – Transfer of Undertakings (Protection of Employment) Regulations 1981 – will not apply to this investment as outlined above.

4.8. Procurement Strategy and Implementation Timescales

It is anticipated that the procurement strategy will make use of the existing contracts for both works and lantern units with an option to develop a separate framework if required.

It is anticipated that the implementation milestones to be agreed for the scheme with the service provider will be an overall programme with agreed short-term objectives for completion of lots based on maintenance areas.

4.9. FRS 5 Accountancy Treatment

It is envisaged that the assets underpinning delivery of the service will be on the balance sheet of the organisation.

5.0. THE FINANCIAL CASE

5.1. Introduction

The purpose of this section is to set out the forecast financial implications of the preferred option (as set out in the economic case section) and the proposed deal (as described in the commercial case).

5.2. Impact on The Organisation's Income and Expenditure Account

The anticipated payment stream for the project over its intended life span is set out in the following table:

Table 16: Summary of Financial Appraisal

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	£	£	£	£	£	£	£	£
Preferred option:								
Capital PWLB		3,271,750	3,742,035	3,605,580	2,130,880			12,750,245
Capital Highways Maintenance		300,000	300,000	300,000	300,000			1,200,000
Total		3,571,750	4,042,035	3,905,580	2,430,880			13,950,245
Funded by:								
Existing	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	2,790,700	
Saving		158,913	278,319	455,351	520,362	194,088	91,840	
Total	2,790,700	2,631,787	2,512,381	2,335,349	2,270,338	2,596,612	2,698,860	

5.3. Impact on The Balance Sheet

The proposed expenditure will have the following impact:

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
		-	-	-	-			-	
Fixed Assets	0	3,271,750	7,013,785	10,619,365	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245
Depreciation		163,588	350,689	530,968	637,512	637,512	637,512	637,512	637,512
Net Assets		3,108,162	6,499,508	9,574,120	11,067,488	10,429,976	9,792,464	9,154,952	8,517,440
Interest	-	- 37,275	- 79,908	- 120,987	- 145,264	- 145,264	- 145,264	- 145,264	- 145,264
Short Term Borrowing		- 163,588	- 350,689.24	- 530,968.26	- 637,512.26	- 637,512	- 637,512	- 637,512	- 637,512
Long Term Borrowing		- 12,586,658	- 12,235,968	- 11,705,000	- 11,067,488	- 10,429,976	- 9,792,463	- 9,154,951	- 8,517,439
Total	-	- 12,787,520	- 12,666,566	- 12,356,955	- 11,850,264	- 11,212,752	- 10,575,240	- 9,937,728	- 9,300,215
Reserves to(-) from (+)		- 158,913	- 278,319	- 455,351	- 520,362	- 194,088	- 91,840	45,801	165,509
Reserves Cumulative		- 158,913	- 437,232	- 892,583	- 1,412,945	- 1,607,033	- 1,698,873	- 1,653,072	- 1,487,563

	2029/30	2030/31	2031/32	2032/33	2033/24	2034/35	2035/36	2036/37
	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
Fixed Assets	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245
Depreciation	637,512	637,512	637,512	637,512	637,512	637,512	637,512	637,512
Net Assets	7,879,928	7,242,416	6,604,904	5,967,392	5,329,880	4,692,368	4,054,856	3,417,344
Interest	- 145,264	- 145,264	- 145,264	- 145,264	- 145,264	- 145,264	- 145,264	- 145,264
Short Term Borrowing	- 637,512	- 637,512	- 637,512	- 637,512	- 637,512	- 637,512	- 637,512	- 637,512
Long Term Borrowing	- 7,879,927	- 7,242,414	- 6,604,902	- 5,967,390	- 5,329,878	- 4,692,365	- 4,054,853	- 3,417,341
Total	- 8,662,703	- 8,025,191	- 7,387,678	- 6,750,166	- 6,112,654	- 5,475,142	- 4,837,629	- 4,200,117
Reserves to(-) from (+)	293,902	431,656	579,503	182,502				
Reserves Cumulative	- 1,193,661	- 762,005	- 182,502	-				

	2037/38	2038/39	2039/40	2040/41	2041/42	2042/43	2043/44	2044/45
	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24
Fixed Assets	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245	12,750,245
Depreciation	637,512	637,512	637,512	637,512	473,924	286,823	106,544	
Net Assets	2,779,832	2,142,320	1,504,808	867,296	393,372	106,549	5	5
Interest	- 145,264	- 145,264	- 145,264	- 145,264	- 107,989	- 65,356	- 24,277	
Short Term Borrowing	- 637,512	- 637,512	- 637,512	- 637,512	- 473,925	- 286,823	- 106,544	
Long Term Borrowing	- 2,779,829	- 2,142,316	- 1,504,804	- 867,292	- 393,367	- 106,544	- 0	
Total	- 3,562,605	- 2,925,093	- 2,287,580	- 1,650,068	- 975,281	- 458,723	- 130,821	
Reserves to(-) from (+)								
Reserves Cumulative								

5.4. Overall affordability

The business case demonstrates the project is affordable over the life of the project with all capital repayment costs built in, based on the assumptions highlighted in this document. Not carrying out this project will result in further budget issues in the coming year

A contribution from the LTP programme (capital) is being invested in each of the next 4 years, which limits the prudential borrowing costs.

The scheme will generate savings for the first 6 years of the project without increasing the current budget for inflation. It is recommended that these savings are reserved each year which it is anticipated that there should be no revenue implications until year 12 (where the energy price increases will have caught up).

The model assumes an average energy price increase of 8% and other inflationary increases of 2% each year. It also assumes a policy change for prudential borrowing from 10 years to 20 years.

Sensitivity analysis has been provided for changes in energy prices, borrowing rates and capital costs.

The proposed cost of the UTC asset project is to be funded by the Liverpool City Region.

6.0. THE MANAGEMENT CASE

6.1. Introduction

We need to consider the options by which we can achieve delivery of this scheme and which is the best option. We already have staff members who are skilled and knowledgeable who could deliver this project but their time is already committed, given this we will have to bring in additional resource. The choices are whether to bring this additional resource in as additional members of staff or appoint a consultant; whether to apply the additional resource to the project, to current commitments or to both.

6.2. Programme Management Arrangements

The scheme is an integral part of the Growth and Strategic Investment programme, which comprises a portfolio of projects for the delivery of Economic Growth, Public Service Reform, Service Options and Strategic Investment.

These are set out in the Programme Manual for Growth and Strategic Investment (GSI) agreed in October 2019.

The Growth and Strategic Investment Programme is Led and Managed by an Executive Director and supported by a Programme Manager. The Programme reports to the Programme Board, Chaired by the Chief Executive. The Programme may also report to the Investment Board, where items of a commercially nature, primarily reporting of live commercial operations, need to be considered.

6.3. Project Management Arrangements

The project will be managed in accordance with Programme Manual for Growth and Strategic Investment.

6.3.1. Project Reporting Structure

The reporting organisation and the reporting structure for the project are as follows:

- Monthly reports from the Project Owner to the Project Sponsor.
- Quarterly reports to Growth & Strategic Investment Board from the Project Owner

6.3.2. Project Roles and Responsibilities

These are as follows:

Project Owner - The Project Owner is the person Accountable for the overall project delivery, from concept to closure. The owner is responsible for the day to day delivery of the project, including but not restricted to Charter Production and delivery of agreed milestones and deliverables, these will form the project owner objectives.

The Project Owner is the first point of call for project specific information and actions.

The project owner is responsible for production and delivering all relevant project documentation e.g. (Charter / Business case production) ensuring process compliance and reporting structures are followed throughout the delivery of the project. The Project Owner will also ensure stakeholder management is relevant and timely. The Project Owner should ensure communication of project progress is also timely and relevant and creates “no surprises”.

Project Sponsor - The Project Sponsor is the “Project Champion” and should be first point of call for the Project Owner to discuss project detail. The sponsor will have a good working knowledge of the project and may be expected to manage some elements of the day to day project delivery. The Sponsor will support the project through the delivery process advising and supporting in respect to the stakeholder management, (opening sticking doors). The sponsor will give direction and advice in respect to the project stakeholder management and communications in accordance with agreed communication channels of FFC Helps address and remove barriers to delivery.

The Project Sponsor is responsible for identifying the resources required to deliver the project, for keeping both the Growth & SI Board and relevant Heads of Service appraised of progress and assuring of effective project management, progress and risk management. The Project Sponsor will identify any risk that require escalation to the Growth & SI Board or immediate corporate awareness.

The sponsor is expected to support the project at presentation through the phases of the project lifecycle e.g. presentation and Growth & SI and Programme boards, and advise during Business case production. The sponsor will also agree with the project owner any requirements in respect to scope changes, prior to formal agreement at relevant body e.g. Growth & SI Board. The Project Sponsor is not a line management role, but may carry that role through Service Organisational structures.

Critical success factors for these roles include:

• Transparency and openness – full disclosure of project related information

• Accurate data and recording with a clear audit trail to development

• Effective allocation and utilisation of resource

• Integration of activity across many service areas

• Strong stakeholder engagement – planning, communications and direction

• Team development – knowledge, skills, innovation, improvement and collaboration

• Leadership which demonstrates behaviours of compliance with policy and best practice and supports and maintains a strong and effective Programme management environment

6.3.3. Project Plan

This is as set out in the following table:

Table 17: Project Plan

Milestone Activity	**Week No.**
Confirm with Term Contractor that they would like to undertake the work	0
Preparing the JD and PS Undertaking JE	0
Business Case approved – including the decision to proceed with an in-house project team	1
Establishment control approval and union consultation	4
Staff consultation (incl ring-fencing) Recruitment - internal	8
Project workshop with Contractor and Lantern supplier Issue order for equipment	12
Recruitment – external if required	12
Appointment	17
Induction and training	25
Project team ready to commence project	30
Project workshop to agree working methods and programme	30
Issue first Lot(s) to Contractor	35
Contractor commences work on site	39
Anticipated works programme of 4 years Monthly reports to project sponsor Quarterly reports to Growth Board and Cabinet Member	39-247
Project close-down including project evaluation	247-273

6.4. Outline Arrangements for Change and Contract Management

The strategy, framework and plan for dealing with change and associated contract management is as set out in the Programme Manual for Growth and Strategic Investment and in the contract.

Any changes to the Project in respect to - scope / cost / quality / time. Must be reported via a variance report and agreed at next available Growth &SI Board. The variance may be so significant that it must be escalated to Programme Board, SCIG, Cabinet Member or Cabinet.

6.5. Outline Arrangements for Benefits Realisation

The strategy, framework and plan for dealing with the management and delivery of benefits is as set out in the Programme Manual for Growth and Strategic Investment and in the contract.

The benefits register sets out who is responsible for the delivery of specific benefits, how and when they will be delivered and the required counter measures, as required.

6.6. Outline Arrangements for Risk Management

The strategy, framework and plan for dealing with the management of risk are as follows is as set out in the Programme Manual for Growth and Strategic Investment and in the contract.

The risk register details who is responsible for the management of risks and the required counter measures, as required.

6.7. Outline Arrangements for Post Project Evaluation

The outline arrangements for post implementation review (PIR) and project evaluation review (PER) have been established in accordance with best practice.

6.7.1. Post Implementation Review (PIR)

These reviews ascertain whether the anticipated benefits have been delivered and are timed to take place at the completion of each maintenance area and at the end of the project.

6.7.2. Project Evaluation Reviews (PERs)

PERs appraise how well the project was managed and delivered compared with expectations and are timed to take place on a half yearly basis and at the end of the project.

6.8. Contingency Plans

In the context of this project failure will relate primarily to energy reduction which impacts on achievement of carbon reduction and cost avoidance. In relation to carbon reduction any residual energy requirement will be met through a green tariff. In relation to cost avoidance this will be dealt with through the Council's budget making procedures.

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