Public Document Pack

Sefton Council

Overview & Scrutiny

MEETING:	OVERVIEW AND SCRUTINY COMMITTEE (REGULATORY, COMPLIANCE AND CORPORATE SERVICES)
DATE:	Tuesday 8th February, 2022
TIME:	6.30 pm
VENUE:	Ballroom, Town Hall Bootle

Member	**Substitute**
Councillor	Councillor
Councillor Bradshaw (Chair)	Councillor McGinnity
Councillor Byrom (Vice-Chair)	Councillor Murphy
Councillor Bennett	Councillor Irving
Councillor Brennan	Councillor Myers
Councillor Grace	Councillor Roche
Councillor Howard	Councillor John Sayers
Councillor Killen	Councillor Friel
Councillor Lewis	Councillor Brodie - Browne
Councillor McKinley	Councillor Thomas
Councillor Morris	Councillor Sir Ron Watson

COMMITTEE OFFICER:	Paul Fraser Senior Democratic Services Officer
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See overleaf for COVID Guidance and the requirements in relation to Public Attendance.

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.

COVID GUIDANCE IN RELATION TO PUBLIC ATTENDANCE

In light of ongoing Covid-19 social distancing restrictions, there is limited capacity for members of the press and public to be present in the meeting room indicated on the front page of the agenda at any one time. We would ask parties remain in the meeting room solely for the duration of consideration of the Committee report(s) to which their interests relate.

We therefore request that if you wish to attend the Committee to please register in advance of the meeting via email to paul.fraser@sefton.gov.uk by no later than **12:00 (noon) on the day of the meeting.**

Please include in your email –

- Your name;
- Your email address;
- Your Contact telephone number; and
- The details of the report in which you are interested.

In light of current social distancing requirements, access to the meeting room is limited.

We have been advised by Public Health that Members, officers and the public should carry out a lateral flow test before attending the meeting, and only attend if that test is negative. Provided you are not classed as exempt, it is requested that you wear a mask that covers both your nose and mouth.

A G E N D A

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, including from the public gallery, 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** (Pages 5 - 12)

Minutes of the meeting held on 2 November 2021

4. **Annual Review of Asset Management Strategy and Asset Disposal Policy** (Pages 13 - 46)

Report of the Executive Director of Corporate Resources and Customer Services

5. **Prudential Indicators 2022/23** (Pages 47 - 60)

Report of the Executive Director of Corporate Resources and Customer Services

6. **Treasury Management Policy and Strategy 2022/23** (Pages 61 - 94)

Report of the Executive Director of Corporate Resources and Customer Services

7. **Capital Strategy 2022/23 to 2026/27** (Pages 95 - 112)

Report of the Executive Director of Corporate Resources and Customer Services

8.	**Robustness of the 2022/23 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25** Report of the Executive Director of Corporate Resources and Customer Services	(Pages 113 - 132)
9.	**Revenue and Capital Budget Plan 2022/23 – 2024/25 and Council Tax 2022/23** Report of the Executive Director of Corporate Resources and Customer Services	(Pages 133 - 178)

THIS SET OF MINUTES IS NOT SUBJECT TO "CALL IN".

OVERVIEW AND SCRUTINY COMMITTEE (REGULATORY, COMPLIANCE AND CORPORATE SERVICES)

MEETING HELD AT THE BALLROOM, TOWN HALL, BOOTLE ON TUESDAY 2ND NOVEMBER, 2021

PRESENT: Councillor Byrom (in the Chair)
Councillors Brennan, Grace, Howard, Killen and McKinley

ALSO PRESENT: Councillor Lappin

18. APOLOGIES FOR ABSENCE

Apologies for absence were received from the Chair, Councillor Bradshaw and Councillors Bennett, Lewis and Morris.

19. DECLARATIONS OF INTEREST

No declarations of interest were received.

20. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the Minutes of the meeting held on 14 September 2021 be confirmed as a correct record.

21. ASSET MANAGEMENT STRATEGY/DISPOSAL POLICY

The Committee received a presentation from Dominic Ellis, Assets and Property Manager on the Asset Management Strategy/Disposal Policy.

Mr. Ellis highlighted the following as part of the presentation:

- Why the management of the Council's asset base was important. Aside from Staff, the asset base was the Councils next biggest resource and therefore a robust strategic approach was required to ensure assets were maximised and informed decisions could be made; and that the portfolio was made up of the following: £248.110m - Other Land and Buildings; £8.008m – Surplus Assets; and £53.110m – Investment Properties
- The up to date position in respect of the Asset Management Strategy and Asset Disposal Policy which had been approved via the Council's formal governance processes including Cabinet and Council; that the documents and processes had recently been audited; and that the next formal annual review of the Asset Management Strategy and/Disposal Policy would be February 2022
- Member engagement in the decision-making processes and the Constitutional and legislative rules that provided the framework within which the Council worked

- Phase 1 of the Asset Disposal Policy in relation to the 15 sites approved by Cabinet in January 2020
- How the Strategy supported the Framework for Change via Asset Maximisation; Partnering Opportunities; Agile working; Alignment with ICT / Digital Strategy; Key enabler to PSR projects and reform for service delivery; Strategic Investment; and Key enabler - direct contributor to growth programme

Members asked questions/commented on the following issues:

- The procedure to adopt a building or land as a community asset; and the conflict between a building/land that is contained in the Asset Disposal Policy but has also been designated as a community asset
- The proposals and options for Vine House, Seaforth which is contained in the Phase 1 of the Asset Disposals
- The number of fully vacant non-operational properties the Council had.
- It was noted that whilst Directorates of the Council were currently responsible for their own assets which has led to a fragmented approach to asset management and asset disposal, the ongoing work and eventual Corporate Landlord implementation would create a more coordinated approach moving forward. Some of the work carried out to date included an audit on the Council's assets register which would form the basis of this centralised approach. Staff were commended for this piece of work
- Information was sought on whether it was a good time to dispose of assets in the current economic market
- How agile working, staff working from home and digital and hybrid models would impact on the Council's requirement for fixed office assets; and the use of break clauses in leases to reduce the Council's office footprint to meet the reduced demand for office space
- The Council's aspirations as a corporate landlord to provide more social housing

RESOLVED:

That Mr. Ellis be thanked for his informative presentation.

22. FINANCIAL MANAGEMENT 2021/22 TO 2024/25 AND FRAMEWORK FOR CHANGE 2020 - REVENUE AND CAPITAL BUDGET UPDATE 2021/22 INCLUDING THE FINANCIAL IMPACT OF COVID-19 ON THE 2021/22 BUDGET - OCTOBER UPDATE

Further to Minute No. 55 of the meeting of the Cabinet held on 7 October 2021 the Committee considered the report of the Executive Director of Corporate Resources and Customer Services that advised of:

(1) the current estimated financial impact of COVID-19 on the 2021/22 Budget;

(2) the current forecast revenue outturn position for the Council for 2021/22;

(3) the current forecast on Council Tax and Business Rates collection for 2021/22; and

(4) the monitoring position of the Council's capital programme to the end of August 2021 relating to:

- the forecast expenditure to year end;
- variations against the approved budgets and an explanation of those variations for consideration by Members;
- updates to spending profiles and proposed amendments to capital budgets necessary to ensure the efficient delivery of capital projects are also presented for approval.

The Cabinet had resolved (Minute No. 55) that:

A. in respect of the Revenue Budget:

(1) the current financial implications of COVID-19 on the 2021/22 Budget together with the key issues that will influence the final position, be noted;

(2) the current position relating to the 2021/22 revenue budget be noted; and

(3) the financial risks associated with the delivery of the 2021/22 revenue budget be recognised and it be acknowledged that the forecast outturn position will continue to be reviewed to ensure a balanced forecast outturn position and financial sustainability can be achieved; and

B. In respect of the Capital Programme:

(1) the spending profiles across financial years for the approved capital programme, as outlined within paragraph 7.1of the report, be noted;

(2) the latest capital expenditure position as at 31 August 2021 of £10.876m, as outlined within paragraph 7.4 of the report, together with the latest full year forecast of £45.436m, as

outlined within paragraph 7.6, be noted;

(3) the explanations of variances to project budgets, as outlined within paragraphs 7.5 and 7.9 of the report, be noted;

(4) it be noted that capital resources will be managed by the Executive Director Corporate Resources and Customer Services, to ensure the capital programme remains fully funded and that capital funding arrangements secure the maximum financial benefit to the Council, as outlined within paragraph 7.12 of the report.

Members of the Committee asked questions/commented on the following issues:

- a concern was expressed at the rephasing of Disabled Facilities Grants and the potential for this to have an adverse effect on equality implications; and the potential for legal/judicial review action against the Council
- information was sought on the process for imposing a charge on a resident's property to cover social care costs; how much annually was recovered by such charges; and whether charges were imposed to cover council tax arrears. It was noted that a financial assessment was initially made against the resident's assets; that once a property was sold the Council realised the asset; that at the end of 2020/2021 approximately £5 million was secured by the Council against property; and that information about this balance was contained in the Council's Statement of Accounts as long-term debtors. Officers would check if any charges had been made against property for council tax arrears and provide details.
- in respect of the overspend in Children's Social Care attributable to the Covid-19 pandemic information was sought on the criteria to access the Outbreak Management Fund
- the impact of the Covid-19 pandemic on the 2021/22 budget, funding received from Government and associated shortfalls; and how Sefton compared to other local authorities
- in respect of the Capital Programme reference was made to the School's Programme and what schemes were contained within the Programme. Officers would provide Members with an analysis of the schemes contained within the Schools' Programme.
- how staff pay rises and pension pressures would impact on the Council's budget

RESOLVED:

That the financial monitoring report and the decision taken by Cabinet in respect of this matter be noted.

23. WORK PROGRAMME 2021/22, SCRUTINY REVIEW TOPICS AND KEY DECISION FORWARD PLAN

The Committee considered the report of the Chief Legal and Democratic Officer seeking the views of the Committee on the Work Programme for 2021/22; the identification of potential topics for scrutiny reviews to be undertaken by a Working Group(s) appointed by the Committee; the identification of any items for pre-scrutiny by the Committee from the Key Decision Forward Plan; and providing an update on the Liverpool City Region Combined Authority Overview and Scrutiny Committee.

A suggestion was made that a Working Group could be established to undertake a review of the Member Development Programme and staff training. Comments were made that the review could look at the range of training offered to both elected Members and officers; the potential for sanctions to be imposed if elected Members did not complete mandatory training courses, including the publication of details of courses completed/not completed by Members; that information from the LGA Peer Review could be used to inform the Working Group review; the advantages/disadvantages of online training compared to classroom based training; and the duration of training courses to achieve the optimum benefit for attendees

RESOLVED: That

(1) the Work Programme for 2021/22, as set out in Appendix 1 to the report, be approved;

(2) the Chief Legal and Democratic Officer and the Chief Personnel Officer be requested to investigate the potential for a Working Group to review the topic of the Member Development Programme and staff training;

(3) the Chief Legal and Democratic Officer write to appropriate Heads of Service seeking potential Working Group topics for review;

(4) the update on the Liverpool City Region Combined Authority Overview and Scrutiny Committee be noted;

(5) the Head of Strategic support submit a report to the next meeting of the Committee on “Manage My Requests” (iCasework) system; and

(6) the Chief Legal and Democratic Officer submit a report to the next meeting of the Committee updating on the Implementation of recommendations arising from the Ethical Business Practices Working Group.

24. WELFARE REFORM AND ANTI-POVERTY REFERENCE GROUP - UPDATE

Further to Minute No. 16 of the meeting held on 14 September 2021 the Committee considered a Welfare Reform and Anti-Poverty update of the Head of Health and Wellbeing and Cabinet Member - Regulatory, Compliance and Corporate Services.

The update provided information on the latest meeting of the Welfare Reform and Anti-Poverty (WRAP) Cabinet Member Reference Group and in particular on activities associated with:

- Community Pantry
- Transport
- An update from the Welfare Reform and Anti-Poverty Steering Group
- Poverty Emergency and Childhood Poverty in Sefton
- Holiday Activity Fund and Summer Food Programme
- Emergency Limited Assistance Scheme
- Healthy Child Voucher Programme
- Requests for action

Councillor Lappin, Cabinet Member – Regulatory, Compliance and Corporate Services presented the update.

A Member commented on the low uptake of the healthy child voucher programme despite promotion of the programme from various services; and supported the work being undertaken to review barriers to accessing the programme and the consideration of options to increase uptake. This was especially important in light of the £20 Universal Credit cut.

RESOLVED: That

(1) the update on the operation of the Members' Welfare Reform Reference Group be noted; and

(2) Councillor Lappin be thanked for her update.

25. CABINET MEMBER REPORT – OCTOBER 2021

The Committee considered the report of the Chief Legal and Democratic Officer that included the most recent report from the Cabinet Member – Regulatory, Compliance and Corporate Services.

Councillor Lappin, Cabinet Member – Regulatory, Compliance and

Corporate Services presented her report.

Members commented on the excellent work of the Democratic services Team ensuring the safe return to physical meetings; and noted that that whilst no social distancing measures were in place for the Council meeting held in September 2021 there were a number of mitigations to eliminate risk; and that following the meeting a consultation had been sent to all Members of the Council and an analysis had been prepared. Members considered that it would be helpful to arrange remote or hybrid meetings but appreciated that due to Government regulations this could not be done.

RESOLVED: That

(1) the update report from the Cabinet Member – Regulatory, Compliance and Corporate Services be noted; and

(2) Councillor Lappin be thanked for her attendance at the meeting.

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Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) Cabinet Council	**Date of Meeting:**	8 February 2022 10 February 2022 3 March 2022
Subject:	Annual Review of Asset Management Strategy and Asset Disposal Policy		
Report of:	Executive Director 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 strategy and policy set's out the vision and aspirations for the effective management of the Council's corporate asset portfolio and the role it plays in supporting and shaping the Council's agenda for the 2030 vision.

Aside from its staff the Council's next biggest resource is its land and property therefore it is vital that this resource is managed and used effectively and efficiently to ensure that the Council derives maximum benefit from its assets in support of its strategic aims and priorities.

The Asset Management Strategy & Asset Disposal Policy will provide a framework for the planning, prioritisation, management and funding of the Councils asset base.

This is a statutory document that the Council is required to have in place and will be reviewed on an annual basis.

Recommendations:

Cabinet is asked to:

1. Recommend that Council approve the updated Asset Management Strategy
2. Recommend that Council approve the updated Asset Disposal Policy.

Council is recommended to

1. Approve the Asset Management Strategy.
2. Approve the Asset Disposal Policy

Reasons for the Recommendation(s):

The Asset Management Strategy & Asset Disposal Policy are key documents for Sefton Council which sets out key parameters in respect of the delivery of an efficient and effective property portfolio.

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

None

What will it cost and how will it be financed?

(A) Revenue Costs

To be assessed at programme and individual project level.

(B) Capital Costs

To be assessed at programme and individual project level.

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 Asset Management Strategy & Asset Disposal Policy outlines the governance and framework for future property decisions. Proposals may have an impact on physical assets and/or ongoing revenue income and expenditure and these will be assessed both at a programme and individual project level.
Legal Implications: To be considered on a case by case basis.
Equality Implications: To be considered on a case by case basis.

Contribution to the Council's Core Purpose:

<u>**Protect the most vulnerable**</u>: The Asset Management Strategy & Asset Disposal Policy will enable the Council to continue to seek to protect the most vulnerable within available resources.

Facilitate confident and resilient communities: The Asset Management Strategy & Asset Disposal Policy demonstrates a clear commitment to working with partners, communities and local businesses to reduce the reliance on the public sector.
Commission, broker and provide core services: The Asset Management Strategy & Asset Disposal Policy 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 with accessible links.
Place – leadership and influencer: The Asset Management Strategy & Asset Disposal Policy 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.
Drivers of change and reform: The Asset Management Strategy & Asset Disposal Policy 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 Asset Management Strategy & Asset Disposal Policy clearly articulates the Council's approach to investing and change in order to achieve financial sustainability and the ambitions of Sefton 2030.
Greater income for social investment: The Asset Management Strategy & Asset Disposal Policy 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 Asset Management Strategy & Asset Disposal Policy 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

Executive Director Corporate Resources and Customer Services (FD6681/22) is the author of the report and the Chief Legal and Democratic Officer (LD4881/22) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Contact Officers: Stephan Van Arendsen
Tel: 0151 934 4082
Email: Stephan.VanArendsen@sefton.gov.uk

Appendices:

1. Asset Management Strategy – Appendix 1.
2. Asset Disposal Policy – Appendix 2.

Background Papers:

N/A

1. Introduction

1.1 In-order to effectively manage a property portfolio, it is critical that all authorities have an Asset Management Strategy & Asset Disposal Policy approved and in place for the forthcoming financial year.

1.2 The Council has therefore sought to develop an Asset Management Strategy & Asset Disposal Policy for guidance.

2. Content

2.1 The content of the Asset Management Strategy & Asset Disposal Policy are defined, however it is recognised that each individual authorities final document will reflect its own individual circumstances. As such the document aims to provide information and guidance on how decisions will be made and what considerations will be taken into account in the management of assets within Sefton. These documents are to be read in conjunction with delivery plans and any other plans derived from this.

2.2 Both the Asset Management Strategy & Asset Disposal Policy were last presented as part of the budget reporting in February 2019 with annual reviews having been undertaken each year subsequently with no material changes. Whilst the documents in this year's annual review remain largely unchanged with only minor changes, it is considered timely to present the full documents for approval once again. The amendments included in the documents include but are not limited to;

- The reference around European Commission's State Aid rules now being the UK's Subsidy Control rules.
- The reference around European Commission's OJEU notice now being the UK's Contract Notice under the Public Contract Regulations 2015 (as amended).
- Expansion of the detail in relation to approval route/levels; and
- Inclusion of the councils proposed approach to Residential Ground Rents and Chief Rents

The documents will continue to be updated annually with material changes being represented further.

2.3 As a result the revised and updated Asset Management Strategy and Asset Disposal Policy are attached as appendices to this covering report for approval.

Separate Document

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Asset Management Strategy

Revision B – 03/02/20

Revision C - 28/01/21

Revision D – 06/01/22

Next review due on 06/01/23

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1. Introduction

This Strategy sets out the vision and aspirations for the effective management of the Council's corporate asset portfolio and the role it plays in supporting and shaping the Council's agenda for the 2030 vision.

Aside from its staff the Council's next biggest resource is its land and property therefore it is vital that this resource is managed and used effectively and efficiently to ensure that the Council derives maximum benefit from its assets in support of its strategic aims and priorities.

The continued pressure on Local Authority finances makes it more critical that the Council has a robust strategic approach to ensure the correct decisions are taken regarding its property asset base. In moving forward there will need to be an increased emphasis on challenging and justifying why assets are being retained, whilst looking at other alternative options for asset use and service delivery to maintain front line services within the stringent budgetary framework which Local Authorities are required to operate within.

The Asset Management Strategy (the Strategy) will provide a framework for the planning, prioritisation, management and funding of the Councils asset base.

The Plan supports and informs the Council's Medium-Term Financial Plan (MTFP).

2. Aims of the Strategy

The key aims of the Asset Management strategy are to;

- Enhance the opportunities for communities to access the Council's services in either our own or partner buildings;
- Maximise the use of space within buildings by enabling better and innovative ways of working;
- Ensure that buildings meet all Health and Safety requirements and other legislative standards;
- Provide a clear context within which the Council's property assets can be managed to ensure that all asset based investment is targeted towards meeting the Council's priorities and/or legislative requirements;
- Maximise the use of revenue resources by establishing effective arrangements for the management of Council assets and expenditure including focused benchmarking and performance analysis to achieve Value for Money (increase granularity of reporting down to m2 rate of assets to inform robust decisions);
- Establish a corporate approach to the management and release of capital from the Council's existing asset base.

3. Types of Assets

The use and management of the Authority's assets can play a fundamental role in delivery of corporate and local priorities, as well as shape and influence the quality of life and place for local people and businesses. The property asset base divides into two key categories;

- **Operational Properties** — Owned or leased buildings that are required to enable the delivery of services. These are typically the main administrative buildings, but also encompass specialised facilities such as Schools and Care homes.
- **Non-operational Properties** — Also known as the investment portfolio, these assets are held because they generate an income return or present an opportunity for capital gain through redevelopment. Traditionally, the portfolio was a legacy of previous and often longstanding land ownerships that have come together with the merger of the composite authorities that now make up Sefton Council and are not typical of most commercial investment portfolios that are a consequence of conscious decisions to invest and hold property as an investment asset. The portfolio includes properties subject to restrictive covenants.

There are a small number of assets where there is a cross over between both categories.

4. Approach to the Strategy

It is critical that the assets the Council retains are fit for purpose, provide value for money and meet/support both business and community needs. Decisions to invest and improve the asset base are made on the same robust and transparent basis.

The Council will adopt a formal Corporate Landlord Approach to drive a planned process to review and challenge the use and retention of assets, providing a transparent framework for investment and disinvestment decisions in the asset base.

The Council will also endeavour, through its programme of capital investment, to maintain its assets to a standard such that they remain fit for purpose, enabling continuity of service delivery to meet corporate priorities. In particular, it will carry out regular surveys of its stock of buildings and structures to ascertain their state of repair and any remedial works which may be necessary

In addition, the Plan will be influenced by the results of any service reviews which have been carried out by the Council, either as part of the budget preparation, one-off exercises or in support of the Sefton 2030 Vision. Where these reviews identify areas of service which are to be restructured or discontinued, this may give rise to surplus assets. Each asset in the potential list of disposals will have different characteristics and the approach to evaluating whether disposal remains the best option and then identifying the objectives to be achieved for each will vary. A full appraisal will therefore be required with Member engagement to understand and agree what these objectives are that will in turn allow the Council to understand and then maximise its financial return. In addition to a potential capital receipt, other benefits will naturally be borne out of a disposal, one being a reduced revenue burden.

An ongoing review of the Council's accommodation provision will continually look at opportunities to rationalise occupation and release surplus accommodation from the Council's buildings.

This will include identifying opportunities for shared use of Council facilities to enable the efficient provision of key services as well as potential co-locations with other public and private sector partners via the 'One Public Estate' agenda.

The Council's approach to the retention of assets is based around the ability to clearly demonstrate that they;

- Support and meet the Corporate objectives of the Council;
- Contribute to the effective delivery of business provision (i.e. the condition and performance of the asset does not impede service delivery);
- Provide a strategic landholding in key locations in the borough;
- Provide value for money (in respect of their current or future investment, capital value, revenue generation and/or ability to influence regeneration).

Where assets do not satisfy the above criteria consideration will be given to the asset either being better utilised to free up accommodation elsewhere, or disposed of.

The disposal process, including the rationale for using a particular method of disposal is set out in the Asset Disposal Policy.

5. Governance

The Council's governance arrangements are established and set out in the Council's Constitution and Financial Procedure Regulations. Responsibility for the Asset Management Strategy rests with the Council.

6. Key Challenges

In developing a rolling plan, the Council will need to have a flexible approach to take account and accommodate a variety of factors and challenges which will impact on the future of the asset base. In summary these include:-

National level

The ongoing pressures on Local Government funding will produce a year on year reduction in available revenue and traditional forms of grant funding. This has placed increased pressure on how the Council uses and manages its assets in support of service delivery.

In addition, there is the impact of key Legislation. *These include;*

- **The Localism Act 2011**
- **Disposal and Appropriation of School Land — Changes in Legislation (Education Act 2011 and new Schedule 1 to the Academies Act 2010)**

Corporate Level

Asset and Property Maximisation

The Council will consider the property/assets opportunities arising from all projects within its Framework for Change programme. It will look to maximise opportunities to improve operational efficiency, reduce revenue costs and maximise the capital and income potential.

This will inform asset related decisions, and maximise capital receipt/revenue saving opportunities arising from;

- The reduction in the Council's size and consequential physical space requirements as a direct consequence of austerity and funding cuts;
- The reduction in physical space requirements as a result of service re-design;
- The reduction in space made possible by the adoption of 'new ways of working' with improved ICT systems and infrastructure; and
- The need to do something very different to maximize our assets.

Property is part of the infrastructure that helps to support the delivery of transformational change. It enables the organisation to provide a wider contribution to the overall aspirations of the Council's Regeneration ambitions.

Agile Working

Sefton has begun to adopt an agile working and place based working collaterally. It enables the Council to work more closely with customers and other public-sector partner organisations with the added benefit of maximising asset use within a reduced building footprint across the portfolio.

In the medium-term, and after significant engagement with partners, the opportunities to co-locate services will become essential in-order to create lean and efficient services for residents and businesses.

Property as Assets for Reform

Property and assets underpin the continual reform of public services. They are a catalyst for change and provide opportunities for cashable savings and efficiencies to be made.

The Council's built assets also enable development opportunities and help create jobs in the Borough, significantly contributing towards cultural change, reform and delivery of the "Local Plan" growth drivers.

In this context Sefton's longer term ambitions will be to sponsor and lead significant economic growth. As parcels of land are identified for investment by the private and third sector, this will provide either equity or capital to the Council in addition to improving the long term financial base given the business rates or Council tax potential.

Reducing the Level of Maintenance Backlog

The objective of the Strategy is that property assets should make a positive contribution either to direct service delivery or to other social and economic objectives of the Council.

In-order to ensure consistency when prioritising levels of expenditure to tackle backlog maintenance relating to individual assets, a prioritisation method has been established. This firstly ensures Health and Safety and wind/watertight requirements are met. The desire is to maintain Council operational property portfolio to a 'satisfactory' condition ensuring that limited funding is expended in buildings with the greatest need.

Condition Surveys are to be carried out on a 5-yearly cycle with interim monitoring/updates. The method adopted will assist in categorising individual assets as follows;

A. Good – Performing well and operating efficiently.

B. Satisfactory – Performing adequately but showing minor deterioration.

C. Poor – Showing major defects and/or not operating adequately.

D. Bad – Economic life expired and/or risk of failure.

The Council is to aspire to a 'B' rating and above. Assets either meeting or exceeding this level will be considered to meet the service delivery standard. These ratings will also help to inform options appraisals linked to the overall asset strategy.

A programme of condition surveys has identified significant backlog maintenance and future capital allocations will support the completion of the most pressing works.

The Council will continue to fund essential backlog maintenance and day to day maintenance where it resolves a health and safety hazard or could remove an impediment to the delivery of front line services.

It should be noted that resources are in place in-order to ensure that all operational and non-operational buildings comply with Statutory requirements.

7. Investment Priorities

Ongoing Review and Maintenance

An ongoing review of both the operational and non-operational property portfolios will be undertaken to identify;

- The level of required maintenance (as assessed from the condition surveys);
- Including works needed in respect of Statutory requirements, for instance, accessibility, asbestos, Legionella, environmental sustainability, etc;
- Areas of proposed capital investment, including enhancement, replacement and shared use of facilities and provision of accommodation focused on the Council's core freehold buildings;
- Financial and opportunity savings realised through rationalisation and the level of anticipated receipts which could be relied upon (given the current and projected market conditions);
- the level of resources secured and/or potentially available to support future investment.
- Energy efficiencies through both day to day management and invest to save opportunities.

A financial lifecycle summary of the capital funding requirement between current and future asset needs will be produced and then updated on a periodic basis.

Asset Review

An Asset Review has commenced within the Council. This has initially focussed on 200 assets (2018) and a rolling review will continue each year. Assets will be evaluated and categorised in to one of the areas below;

- Inform the development and subsequent delivery of an Investment Strategy;
- Understand the commercial value of those assets in variable scenarios;
- Define options for future consideration which might be;

    - *Assets held for operational purposes*
    - *Assets held for heritage reasons or other designated reasons*
    - *Assets held to be developed or re-purposed*
    - *Asset to be disposed of to create a capital receipt*

A review of all income generating assets not currently within the existing ‘property budget / investment portfolio’ structure will be conducted to ensure all incomes are captured and recorded, potentially moving under the Strategic Investment approach for consideration.

Delivery of Key Strategic Priorities

Building upon the momentum generated in previous years in regenerating key areas within the Borough, the Council is committed to use its asset base to deliver the following key strategic priorities. As part of that process it will seek to align funding opportunities to those initiatives, including the allocation of specific land sites and land receipts to support the following aspects of the Framework for Change 2020;

- **Demand Management**
- **Council of 2023**
- **Growth & Strategic Investment**

New Investment in Assets

In addition to the current asset portfolio, strategic acquisitions and development will also be considered where it aligns with the Council’s core purpose.

In terms of new capital bids for investment in property assets (current or proposed acquisitions), these will be submitted in accordance with the Council's governance process.

8. Funding Options

If the Council is to continue to invest in its property asset base it will need to consider alternative and innovative solutions to supplement more traditional funding sources as part of its resourcing strategy. All appropriate options will be explored as part of the individual Business Case:

9. Key Strategy and Policy Documents

This Strategy acts as an overarching document that sets the framework in which the Council's key, property asset-based strategies, policies and procedures are developed, operated and reviewed.

The disposal process, including the rationale for using a particular method of disposal is set out in the Asset Disposal Policy.

10. Review

The Strategy will be reviewed annually, adapting to the review of the Council's strategic objectives, changes in policy, professional practice and changes in the economy and property markets. It does not need to be redrafted annually if the existing documentation remains current.

The Strategy will be read in conjunction with the Asset Management Delivery Plan. This will be an evolving document issued to Council Members through both informal and formal forums.

11. Summary

This Asset Management Strategy demonstrates and sets the framework which enables the Council to build a long-term asset management programme to ensure the efficient and effective use of assets to support the achievement of the Council's corporate priorities. This will help shape the future of Sefton and support the Communities within by aligning with the Councils core purpose as follows;

- **Protect the most vulnerable:** i.e. those people who have complex care needs with no capacity to care for themselves and no other networks to support them. For those who are the most vulnerable we will have a helping role to play, we will challenge others to ensure we all protect the most vulnerable and where we need to, we will intervene to help improve lives
- **Facilitate confident and resilient communities:** the Council will be less about doing things to and for residents and communities and more about creating the capacity and motivation for people to get involved, do it for themselves and help one another. We will create an environment in which residents are less reliant on public sector support and which have well developed and effective social support
- **Commission, broker and provide core services:** the Council will directly deliver fewer services but will act as a broker and commissioner of services which meet the defined needs of communities, are person-centred and localised where possible. We will deliver services which can't be duplicated elsewhere or where we add value.
- **Place-leadership and influencer:** making sure what we and what others do are in the best interests of Sefton and its residents and has a contributing role to the 2030 vision of the Borough. This includes strong leadership and influencing partner organisations to work towards common goals and building pride in the borough.
- **Drivers of change and reform:** the Council will play a key role in leading change and reform to improve outcomes for Sefton residents and continuously improve the borough

- **Facilitate sustainable economic prosperity:** that is, people having the level of money they need to take care of themselves and their family; creating the conditions where relatively low unemployment and high income prevail, leading to high purchasing power; and having enough money to invest in infrastructure.
- **Generate income for social reinvestment:** the Council will develop a commercial nature and look to what it can do either by itself or with others to generate income and profit that can be reinvested into delivering social purpose.
- **Cleaner and Greener:** the Council will work with others to maintain Sefton's natural beauty and ensure that its many assets provide a contribution to Sefton's economy, peoples wellbeing and the achievement of the 2030 Vision.

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Asset Disposal Policy

Revision B – 03/02/20

Revision C - 28/01/21

Revision D – 06/01/22

Next review due on 06/01/23

Table of Contents

1. Introduction

Purpose

Access to a supply of development opportunities is a vital ingredient in successful economic growth. A key role for the Council is to work with Government, other public bodies, the private sector and the Voluntary sector to unlock and accelerate the release of surplus public land and assets for the creation of new homes and employment opportunities. As part of this agenda we have been considering how we can best use the Council's own land holdings and property assets.

The Council's property assets can play a significant role in helping our communities achieve their ambitions, generate economic growth and realise a contribution to the Council's financial needs. To provide some clarity on the processes, this Policy sets out how we wish to take forward the identification and disposal of our surplus land and property assets.

The Government has set out its objective to achieve strong, sustainable and balanced economic growth. It has stressed the importance of land and housing supply and included a commitment to accelerate the release of public sector land to encourage new homes and jobs. Government Departments that hold land have been instructed to publish their release programmes and be held to account for delivery of new homes and jobs created as a result. The Council will seek to play its part and aims to lead by example including through the publication of this Disposal Policy.

This is Sefton Council's established formal Asset Disposal Policy which is an active publication that will be refreshed on an annual basis. It aims to:

- set out our broad objectives in relation to how we use our property assets;
- summarise the Council's property asset base;
- set out the principles we use when making disposal decisions; and
- identify a list of sites and other property assets that are available for disposal.

Objectives

Recognising that land and property is a key enabler to promote economic, housing and community activity in the Borough , the Council has three key objectives in relation to our property and landholdings:

being transparent about our property assets and our disposal principles and selling them in a way that creates a level playing field for potential end users to access sites when they are brought to market;

- not holding land or buildings longer than necessary – making sure they are disposed of to support local growth,
- that they are transferred to end users as quickly as possible,

    - carrying out disposals on terms that promote development, economic activity and growth.
- In disposing of assets, the Council will be guided by its obligation to secure value for money. Disposals are expected to be at market value predicated on the nature of the asset and any agreed mix of uses, however disposal at less than best consideration may be considered in exceptional circumstances in accordance with legislation
- We expect to use our land and property assets effectively and in particular, to support the delivery of a range of housing to meet local needs. Such opportunities will be determined on a case by case basis taking account of the nature and location of the site.

Community Right to Bid

Under the Localism Act 2011 the Council is one of the public bodies covered by the Community Right to Bid (CRTB) under which any properly defined and recognised organisation can ask the Council to list a specified land or property asset (in public or private ownership) as an Asset of Community Value. Should that asset then be sold on the open market there is the opportunity for the qualifying community group to bid for it within a prescribed timeframe and set of Regulations.

The Council currently maintains and publishes two lists; a list, scheduling assets that have been successfully nominated as Assets of Community Value and one showing unsuccessful nomination. Each request to nominate will be considered on its own merit in accordance with the Regulations established by the Act. We hope that the disposal principles and information about how we identify and dispose of assets contained within this document will help to provide context for any CRTB applicants relating to Council owned assets.

Scope of this Document

Although the Council has always worked in line with industry and professional best practice, this document formally documents the relevant process and practice. It is intended to monitor the effects of the Policy and procedures with a view to carrying out a periodic review which takes account of any material changes in law, best practice and significant changes in the property market.

This policy focuses on disposal to end users (those who would carry out the development or long-term management/ownership of the asset). This Policy does not consider how any capital receipts will be used as this area is governed by the Council’s Capital Strategy.

Other Development Initiatives

It is clear that all public landowners have been asked to accelerate land release to support economic activity and housing growth. The Council is effectively seeking to accelerate its efforts to this end with the publication of this Policy and is also working with public and private sector partners to explore the synergies available from the combining of adjacent land sites to create viable development opportunities.

Document Structure

The remainder of this document is set out as follows:

- Information about Council's landholdings;
- Core principles in disposal and development;
- Key development sites;
- Other land and assets – surplus operational assets and non-development assets; and
- Indicative schedule of sites available for disposal.

2. The Council's Property Asset Base

Background

The Council's property portfolio covers a wide range of assets and liabilities. The original reason for the Council (or its predecessors) to own the land will have arisen from; accumulation following the merger of the composite Authorities that now comprise the Council; because the Council (and its predecessors) were considered best placed to manage the risks associated with these buildings and landholdings; or to holistically plan and manage development opportunities, such as infrastructure and expansion of settlements to enable economic growth.

There is a concentration of assets in the main urban centres, but that aside there is no consistent pattern in terms of land distribution or type of site since the Council's inherited land and asset holdings are a reflection of the history of the Council and its predecessor bodies. The main categories of assets and in some cases liabilities are:

- The Council's operational property portfolio, including the Town Halls and other administrative buildings, Schools, Parks and Green Spaces and other specialist facilities;
- Various land and property interests across the Borough;
- The residue of the commercial ground rent portfolio (after disposal of the Industrial ground rents in 2007/2008);
- The residential ground rent portfolio (Including Chief Rents).
- The investment portfolio

The breakdown of the portfolio as at the time of the publication of the policy document is as follows;

- £248.110m - Other Land and Buildings

- £8.008m – Surplus Assets
- £53.110m – Investment Properties

The portfolio is a dynamic entity and these values will change over time as assets are reclassified, acquired or more likely disposed of.

Definitions

In the remainder of this document we define the asset and landholdings as follows:

- **Key Development Sites:** sites suitable for development and identified as being of strategic priority. These may have either a positive or negative value in isolation so consideration will be given to packaging to create viable proposals to bring forward development.
- **Market Sale Assets:** other assets with a positive value which are not expected to play a strategically important role going forward (this includes smaller land sites, surplus operational properties and elements of the non-operational portfolio including the residential ground and chief rents).

More Information

A list of the Council's property assets is published on the Transparency Section of the Council's website under Land and Property Assets.

3. Asset Disposal & Development Principles

This section of the Policy sets out the key principles the Council will use when considering disposals and development across all the categories of land referred to in the previous section. Their application needs to be considered on an asset by asset basis and will reflect local market conditions and any specific proposals for the use of the asset.

Value for Money

As a rule, the Council will seek to achieve a best consideration outcome given any agreed mix of uses. In exceptional or compelling circumstances, the Council may agree to dispose at less than best consideration however this is unlikely to occur when the proposed transaction is set in a purely commercial context.

Where the Council is one of a number of landowners participating in a development scheme, we will work with them where possible, including to optimise the mix of uses and to get the best deal for the public sector as a whole.

Working with Local Plans

The Council's approach to the maximisation of outcomes from the development and disposal of land will be determined by local Planning policies. Where sites have a planning allocation, we will work within that, unless it is agreed that a revised approach is appropriate. Where there is uncertainty, the Council will work with its partners to consider options for use taking account of wider policies and objectives and site viability.

Supporting Economic Development and Regeneration

The Council does not intend to hold assets longer than necessary. In considering the timing and nature of the disposal the Council will seek to ensure that its asset disposals complement the objectives for the economic development and regeneration of an area.

Factors that could influence the timing of disposal include:

- Strategic objectives for the area – for example if a major regeneration scheme is planned, the Council would not release its assets to market in advance of the wider scheme without appropriate contractual conditions;
- Local market and competing supply – the Council would not want to 'flood the market' if other land is already in the market and undeveloped; and
- Market appetite – where appropriate, the Council will carry out de-risking activities to improve the attractiveness of a site to potential purchasers and speed up its development once sold.

Promoting Development and Avoiding Residual Liabilities

In disposing of sites in areas where market conditions are difficult, the Council will consider a flexible approach that will incentivise development. We will do that on our own land and encourage our partners to do the same.

When disposing of sites the Council will aim to achieve a clear, sustainable exit having secured the desired uses and achieved financial completion. The Council will seek to avoid residual liabilities. The principal circumstance where the Council would anticipate an ongoing role post development and financial completion is through longer term joint ventures or Local Asset Backed Vehicles.

Partner Selection

When disposing of developable land, the Council will seek to ensure that the purpose for which it is being developed meets the needs of the Council and the local community (using the planning system as the primary means to achieve this objective). The partner selection process should be transparent and identify the best placed organisation to develop the agreed use based on value for money and deliverability of proposals – both the construction phase and long-term management.

Given the inherent variability of each asset, each disposal is unique and whilst we set out below some of the core principles influencing the choice of disposal route, the Council will consider each case on its merits.

Disposals can be progressed by two broad methods:

- Competitively – there is a general presumption that such competitive disposals will be openly advertised and can include tender and auction; and
- Non-competitively – sales by private treaty or negotiated disposals.

The guidance for Local Government bodies is that a competitive process should be the norm and that disposal by private treaty is the exception. To go down the negotiated disposal route there is a requirement to demonstrate that a non-competitive disposal will result in a better overall outcome for the public sector. This could include compelling practical reasons relating to the nature of the site and/or the identified party's status as a special or unique purchaser capable of extracting the full development potential (in terms of value, quality or outputs as appropriate).

There are two options in respect of competitive disposals:

- Single Stage Disposal - For simple sales or sales requiring a quick process then a single stage process is possible with interested parties
- Multi Stage Disposal – For larger, more complex propositions, the alternative is to adopt a multi-stage process with the first stage being a quick and efficient process to enable short-listing of the interested parties.

The Council will continue to adopt a case by case assessment relating to whether disposal opportunities have characteristics which raise the potential for the opportunity to be considered as a Procurement of Works. This technical assessment in conjunction with the view of local stakeholders and consideration of challenge risk will inform the case by case assessment. The incorporation of the EU Procurement Directive into English Law establishes that property transactions are outside the scope of the Regulations however this position becomes less clear when a simple sale is not adopted and where there is potential for the disposal objective to fall within the Works and Services requirements.

Community Led Approaches

The Council is committed to ensuring a level playing field in its partner selection, including community-led approaches. A community-led approach could compete on an even footing in a competitive market, either operating on its own or through partnership with a more experienced developer, Registered Provider or other private or public-sector partner. There is no defined set of circumstances in which a community-led approach should or should not work however there are some factors which are particularly beneficial to the success of the model:

- Local member support and / or a positive relationship between the group and the local Ward Members;
- A lead VCF organisation or other public body with time and resource to commit to enabling the community to come together and deliver the scheme;
- A shared commitment to a community led approach from all partners involved in the project;
- Availability of external expertise with experience in the sector;
- Strong and coherent community groups with a clear shared vision; and
- A Business Plan that clearly sets out a financially sustainable approach to the long-term management of the asset.

Self-build

Where Council owned plots have been identified as suitable for self-build, the approach to disposal will depend on the nature of the site. Individual plots may be sold directly to market, e.g. Auction or through local advertisement. Small sites may be sold to organisations that can help facilitate bringing forward self-build schemes for self-builders or groups of self-builders. These plots are likely to be single infill plots, or small sites that can accommodate a small number of plots, rather than allocations within larger sites. The Council will explore any statutory obligation to secure self-build plots within larger third-party developments.

The Council has established a ‘register of interest’ for people who may seek a self-build or custom build solution. The Council may need to consider introducing a further Policy to decide whether to sell sites/plots by way of an open market disposal for best price, or whether it may wish to prioritise which households may be given first/priority refusal for sites/plots.

Disposal Process

The main stages in the disposal process are as follows;

- Operational property closed, declared surplus to operational requirements and available for disposal by relevant Cabinet Member
- Non-operational property declared available for disposal by Cabinet Member Regulatory, Compliance and Corporate Services.
- Pre-disposal actions and activity (planning briefs or outline planning consent, disposal terms, method of disposal, etc) agreed by relevant Officers and implemented.
- The disposal will usually be handled by the Council’s property team unless it is of a specialist nature that requires external expertise or resource
- In the case of open market disposals, the asset will be fully marketed using the Internet and more traditional advertising methods.
- The disposal process will take into account any moratorium periods under Community Right to Bid

- All offers will be considered for compliance with tender conditions and undergo a value for money assessment, initially by the relevant Council officials, before being reported as follows
    - Value: < £100,000 – Decision delegated to Executive Director of Corporate Resources and Customer Services
    - Value: £100,001 to £500,000 – Decision made by Cabinet Member Regulatory, Compliance and Corporate Services
    - Value: > £500,001 – Decision made by Cabinet.
- If a disposal is made by way of a Lease rather than freehold transfer then authority for the grant of such Leases shall be dealt with as set out in the Constitution. Leases for a term of up to 20 years are delegated to the Executive Director/Section 151 Officer. Leases over 20 years in length are delegated to the Cabinet Member Regulatory Compliance and Corporate Services and the Executive Director/Section 151 Officer.
- After publication of the decision and progression through the call-in process (if instigated) the decision will be implemented, and the Chief Legal and Democratic Officer instructed to deal with the requisite legal documentation and Conveyance/Lease.
- Progress of disposal activity monitored by the Cabinet Member Regulatory, Compliance and Corporate Services

Disposals for Less Than Best Consideration

Local Authorities were given power under Section 123 of the Local Government Act 1972 (as amended) to dispose of land in any manner they wished, the only constraint being that, except in the case of Leases for less than seven years, the sale had to be for the best consideration reasonably obtainable. Any other disposal at less than best consideration requires the approval of the Secretary of State.

Section 123 applies to land held for most Local Authority functions, but notable exceptions are disposals of land held for housing purposes within the HRA or otherwise let on secure tenancies (governed by the Housing Acts), and for Planning purposes (governed by Planning legislation). Until recently the 1998 General Disposal Consents enabled disposals at an undervalue in certain limited circumstances, e.g. disposals to a named charity.

It is Government policy that Local Authorities should dispose of surplus land wherever possible. Generally, it is expected that land should be sold for the best consideration reasonably obtainable. However, the Government recognises that there may be circumstances where an Authority considers it appropriate to dispose of land at an undervalue. However, when disposing of land at an undervalue, Authorities must remain aware of the need to fulfil their fiduciary duty in a way which is accountable to local people. Other specific consents/processes may be required for disposal of land held for particular purposes (e.g. charitable land, schools, allotment land or open spaces).

The General Disposal Consent (England) 2003 provides a general consent removing the requirement for Local Authorities to seek specific approval from the Secretary of State for a wide range of disposals at less than best consideration. Authorities are granted consent in circumstances where the undervalue does not exceed £2 million and where the disposing Authority considers the disposal is likely to contribute to the achievement of the promotion or improvement of the economic, social or environmental well-being of the whole or any part of its area or all or any persons resident or present in its area. It will be for the Council to decide whether any particular disposal meets these criteria or continues to require specific consent under the 1972 Act.

All disposals need to comply with the UK's Subsidy Control Rules. When disposing of land at less than best consideration, Authorities are providing a subsidy to the owner, developer and/or occupier of the land. Where this occurs, Authorities must ensure that the nature and amount of the subsidy complies with the UK's Subsidy Control Rules. Failure to do so would render the aid unlawful.

In Sefton, sales of land or property at an undervalue have only taken place on an exceptional basis and it is not envisaged that this approach will alter.

4. Key Development Sites

Options for Use and Planning

Key sites will be identified through a periodic asset review. Thereafter, the Council may choose to agree a Planning Brief with the Planning Service or in some circumstances seeking an outline consent if that process would resolve significant uncertainty about the use. Having achieved sufficient certainty, the Council would seek to dispose of the site and transfer the majority of the planning process to the developer, to allow them to bring their scheme through the local Planning process.

Where assets are not yet allocated the Council will work with the Planning Service through the statutory Planning process so that appropriate sites can be brought forward in due course with suitable infrastructure. The Council's Planning policies will set out the requirements for sustainability and other elements of design and build quality on each site. If the Planning Department propose specific standards which relate solely to the Council's land holdings, we would seek further discussions around project viability.

Sites will predominantly be disposed of on a best consideration basis unless the provision of affordable housing has been prioritised in excess of the proportion required by current Planning policies, subject to viability.

The Council will normally dispose of sites via open market means and invite bids, however the Council is not bound to accept the highest financial bid. It may decide to accept a lower financial bid from a Registered Provider or equivalent, where they would seek to use a site to provide affordable housing, and the Council deems that the requirement for affordable housing outweighs the financial offer. Likewise, the Council may limit the disposal of a site to offers from Registered Providers or equivalent only, where the Council is pro-actively seeking to secure the provision of affordable housing, or specialist housing to meet specific needs. Development briefs will be used to set out Council's specific requirements.

Investment Prior to Disposal

The Council may invest to de-risk the site prior to disposal. As a principle, the Council proposes to undertake the minimum necessary pre-disposal work. Often for key development sites there will be some complexity relating to planning, title, site conditions or environmental status. As many as possible of the investigations relating to such matters should be transferred to the purchaser however when the return on investment can be demonstrated and the site de-risked further work will be carried out.

In order to promote development and reflect market risk, larger sites may need to be sub-divided into manageable development parcels and disposed in phases. If some primary infrastructure is required to achieve that division into phases, the Council will need to consider how it can be funded, given Local Government expenditure constraints. Wherever possible, the Council will look to development partners to provide this infrastructure and use land value and adaptable payment terms to support this, (e.g. an Open Book approach with the provision of infrastructure reflected in the land value paid).

The Council will consider undertaking infrastructure works which would help bring forward self-build schemes and sites. The ability of the Council will be dependent on availability of funding to carry out such work.

Disposal Routes

Key development sites will generally be disposed of through a multi-stage disposal or inline with UK's Contract Notice under the Public Contract Regulations 2015 (as amended). We will generally dispose of strategic land on a single site basis. Smaller development sites may be best disposed of as a package of more than one site. In some cases, the best value for money route may be though a joint venture or Local Asset Backed Vehicle.

Joint ventures would normally be considered in the case of substantial or complex sites (with an expected construction phase of over four years) and an Options Appraisal would be carried out prior to selecting the preferred route. If local partners have developed or are developing a joint venture vehicle, the case for linking to or investing the Council's assets in that vehicle would be considered on a case by case basis and be subject to State Aid and tax considerations.

The Council may also develop its own internal mechanisms to develop housing on land in its ownership through its' Housing Development Company. In this case the Council may choose not to expose the site to the market.

Disposal Terms

The terms of disposal will be considered on a case by case basis and reflect the development economics of a particular site and the risks associated with its development. In deciding which of the following broad sets of terms to use, the Council will seek to maximise the rate of development on a site (given the local market) whilst ensuring value for money. The decision on terms will focus on the optimal risk transfer to balance those objectives.

In some situations, the terms will be set before the disposal process starts, in other cases the disposal process will be used to test different terms to assess which offers the best value for money for that site. For smaller, self-contained sites where infrastructure costs are low and / or sites where demand is strong, an upfront payment may be appropriate as the sole basis of going to market.

For other sites, we would typically ask bidders to respond on one or more of three principal bases:

- upfront payment with overage clauses included;

- payment on milestones, for example at agreement of building lease, start on site, completion of phase (with overage), subject to a longstop date; and
- percentage share of sales values as units are sold, subject to a longstop date with a specified payment sum at that date.

Generally we would look to dispose of sites or phases at a scale where the repayment period would be up to five years, but an extended period would be considered if the specific circumstances direct that the extended time period would deliver a better outcome for the Council. Where payment is in the form of a percentage of receipts (the third option above), the longstop date should be within a five-year period, but with the ability to extend if circumstances dictate.

Bids will be compared on consistent basis which may include a discounted cash flow analysis.

When the Council disposes of its own land for residential development purposes, it will include provisions that require developers to sell houses on a freehold basis. This provision will still apply if the developer subsequently disposes of the land to another company.

For Council assets the Council expects a purchaser/developer to use the in house Building Control section for any Building Regulation applications and Approvals.

Overage

Overage is usually defined as a method to capture, “an element of improved development value where there is a general uplift in the market or where the market value of the end development is not known at the time”. The Council will seek to use overage alongside the base payment to capture value increases that were unexpected or uncertain at the time of disposal. This includes the situation where the market value at the end of the development exceeds that anticipated at the time of the disposal which may be as a result of increased house prices, and/or improved house numbers from a subsequent planning permission, amongst other things. Overage will be applied to all sites with an expected value in excess of £0.25m and other sites where it is considered appropriate (e.g. large, low value sites in an uncertain market or sites where a change in planning is possible).

Contracts will also include provision for claw back, including in the circumstances where the scheme is in material breach and forfeiture provisions are triggered requiring the claw back of the undeveloped land.

Form of Contract

In most circumstances where development outputs are expected, the Council’s preferred disposal approach will be by way of Building Lease (or Licence). They will provide the Council with the ongoing legal interest in the land through to development completion thereby providing adequate protection in respect of any imposed conditions or any deferred payment arrangements.

Building Leases provide the following benefits;

- Building Leases are registrable legal interests and as such are preferred by the funders of developers. They are capable of being charged thus providing security to the funding process.

- Building Leases also afford funders adequate step in rights should a developer default.
- The Council will seek to adopt a fairly standardised format which will provide a consistency of approach to the market and should ensure disposal and transactional costs are kept to a minimum.
- The freehold may transfer to the developer or end purchasers after development completion/financial close, e.g. to a purchaser of an individual plot from a developer on completion of the sale.

The Council may also use a reversion clause in isolation or in conjunction with other control mechanisms to ensure that a preferred scheme is delivered.

5. Other Land and Property Assets

Market Sale Assets

Market sale assets are those which have not been identified as making a strategic contribution to the Councils business and social objectives. These assets will generally be much smaller or less valuable than the strategic sites and / or their end use may already be clearly defined (e.g. agricultural land with little chance of achieving planning permission for development to enhance value).

The nature of these assets and the Council's requirement to reduce its financial commitment to the asset base means that we will move to disengage from these sites in as straightforward a manner as possible.

The Council will continue to engage positively to requests from existing tenants wishing to acquire the freehold of their property particularly where the transfer will support further investment and job creation. The principal considerations are as follows;

- For market sale assets a Development Brief would not usually be required. Subject to case by case consideration, the transaction is more likely to be a straight disposal than procurement.
- Freehold transfer would normally be used with the purchaser expected to invest or build out in accordance with Planning and Building Regulations approvals. Market sale assets will usually be disposed of using an upfront payment at freehold transfer.
- The Council will not hold these market sale assets longer than necessary. The prioritisation of selection of assets for disposal will be influenced by holding costs and income generated. The Council will seek to disengage early from assets with highest holding costs but may need to consider the timing of disposal of certain assets if their receipt or income is needed to balance the costs of other sites.
- Claw back provisions may be included for change of use from a prescribed purpose.
- For surplus parts of highways, grass verges, etc, we would generally seek to dispose on a freehold basis with a claw back condition in case of change of use. Disposal to private owners of adjacent properties may be considered if there is a clear indication that the transfer will not be contentious in the locality and they are

the only purchaser. Relevant Cabinet Members are to be briefed on these disposals and in agreement along with the consultation of Ward Councillors.

- For open space, there may be a range of potential recipients including the local Registered Provider and / or an associated community and not for profit organisations. In such cases, the Council would seek to transfer the land to such a body (preferably in perpetuity) with a clear specification of the level of ongoing management required, which will be tested for value for money and affordability. Such disposal would have due consideration to the relevant procurement rules and legislative requirements such as advertisement of Public Open Space Notices

Such Transfers will have the benefit to the Council of reducing holding and management costs as well as ensuring that assets are managed sustainably in the future.

6. Disposal Programme

The Council will publish a list of the sites that it expects to bring forward for disposal over a rolling period. These will be subject to review and due diligence and in practice it is likely that there will be additions and substitutions, but the purpose of publishing this information is to provide a transparent approach concerning potential disposals.

It will include a number of sites where disposal is being pursued on the basis of a review of Council assets based on the following criteria:

- Identification of strategic holdings;
- Development synergies;
- Demand from tenants or third-party interests;
- Reduction of holding costs

The listed sites are expected to be disposed over the relevant timeframe in accordance with the principles set out in this document with the aim of the realisation of capital receipts.

As set out in this document, sites will be disposed of or developers procured as appropriate. Opportunities will be advertised in due course as individual assets and sites are put forward in line with the agreed disposal programme.

Residential Ground Rents and Chief Rents Portfolio

The Council has a significant ground rent and chief rent portfolio arising from its freehold ownership of a number of residential properties throughout the Borough let on a leasehold basis, the majority of which are reserved on 999 years Leases, with a small number of 99 years Leases. Whilst currently the Council disposes of its' freehold reversionary interests and/or chief rents following receipt of a letter or e-mail from a residential occupier, moving forward, the Council intends on taking a proactive approach by writing out to said occupiers giving them the opportunity to purchase the freehold of the property in which they reside.

The Council has an obligation to obtain best consideration for its assets under Section 123 of the Local Government Act 1972 so therefore the above approach will be in line with this.

7. Policy Review

This policy will be reviewed on a periodic basis to ensure that it takes account of any changes in professional and industry best practice and provides the Council with a fit for purpose means to review and rationalise the property asset base.

Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)	Date of Meeting:	Tuesday 8 February 2022
Subject:	Prudential Indicators 2022/23		
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):

Overview and Scrutiny Committee is recommended to:

1) Consider 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 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) Provide any comments to Council which will be considered as part of the formal approval of the Prudential Indicators for 2022/23.

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 2022/23.
Legal Implications: None.
Equality Implications: None.
Climate Emergency Implications: The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The setting of the Prudential Indicators will have no direct impact on the Council's Climate Emergency.

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 (FD6689/22) is the author of the report.

The Chief Legal and Democratic Officer (LD4889/22) 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
Telephone Number:	0151 934 4100
Email Address:	Graham.Hussey@sefton.gov.uk

Appendices:

Appendix A – Summary of Prudential Indicators.

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. The Council has adopted CIPFA's 2017 Prudential Code for Capital Finance in Local Authorities. CIPFA published a revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021. The new codes take effect immediately, except that authorities may defer introducing revised reporting requirements until 2023/24. Sefton will therefore adopt the revised reporting requirements when setting its prudential indictors for 2023/24 to allow time for proper scrutiny and consultation with treasury management advisers to take place.

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 5-8);
(v) Treasury Management Indicators (Section 9).

1.4. The above indicators are presented in the following paragraphs and summarised at Appendix 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 2020/21 is shown below and the estimated current and future years capital programme are recommended for approval:

Capital Expenditure					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
TOTAL	26.203	43.542	47.015	23.311	20.566

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 2021/22 and 2022/23 represents additional allocations added as part of the traditional capital programme and new schemes included in the Council's Strategic Investment Programme. Due to the size and complexity of the Council's capital programme, some schemes may also be rescheduled from previous years and thus increase the overall estimate of expenditure. 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.

2.5. There are several Town Deal proposals currently being progressed that may impact upon the estimates of capital expenditure presented in this report, the most significant of which being a new Marine Lake Events Centre and adjacent water and light show in Southport. In June 2021 Cabinet agreed to progress with plans for this project. The Town Deal Board have allocated £33.3m of capital funding to the to the scheme and The Liverpool City Region Combined Authority supports the principle of allocating up to £20m to the events centre subject to a satisfactory business case being approved. The project is currently in the pre-development phase but as this and other Town Deal projects are developed to final business case and the full amount of funding is drawn down, revised estimates of capital expenditure (and any other prudential indicators that may be affected) will to be presented to Cabinet and Council for approval.

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 2020/21 and estimates of the ratio for 2021/22 and future years are:

Financing Costs / Net Revenue Stream					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
Ratio	4.2%	4.1%	3.8%	3.6%	3.4%

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 higher level of financing costs during 2020/21 and 2021/22 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 is being repaid across the three years of the valuation period, funded by the Council making significantly reduced payments to 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 2020/21 and estimated year-end Capital Financing Requirements for current and future years are set out in the table below:

Capital Financing Requirement					
	31/03/21 £m Actual	31/03/22 £m Estimate	31/03/23 £m Estimate	31/03/24 £m Estimate	31/03/25 £m Estimate
CFR	230.150	233.590	235.437	232.448	229.218

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				
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	200.000	198.000	192.000	196,000
Other Long-Term Liabilities	8.000	7.000	6.000	5,000
TOTAL	208.000	205.000	198.000	201.000

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 2022/23 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 presented to Cabinet and Council for approval at the next available meeting. The Authorised Limit for external debt is as follows:

Authorised Limit				
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	215.000	213.000	207.000	211.000
Other Long Term Liabilities	8.000	7.000	6.000	5.000
TOTAL	223.000	220.000	213.000	216.000

6. Prudential Indicator – Actual External Debt

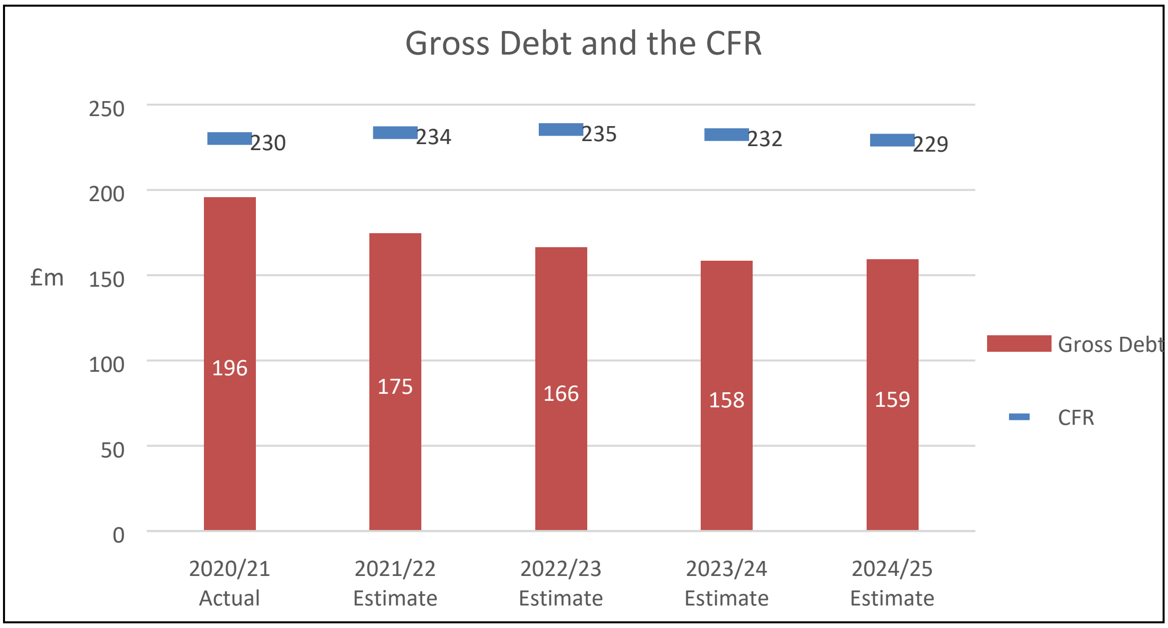
6.1. The Prudential Code requires that in setting indicators for 2022/23, the Council reports its actual levels of external debt as at 31st March 2021. The Council's actual external debt at 31st March 2021 was:

	31/03/2021 £m
Borrowing	187.434
Other Long Term Liabilities	8.357
TOTAL	195.791

7. Gross Debt and the Capital Financing Requirement (CFR)

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 higher level of 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.

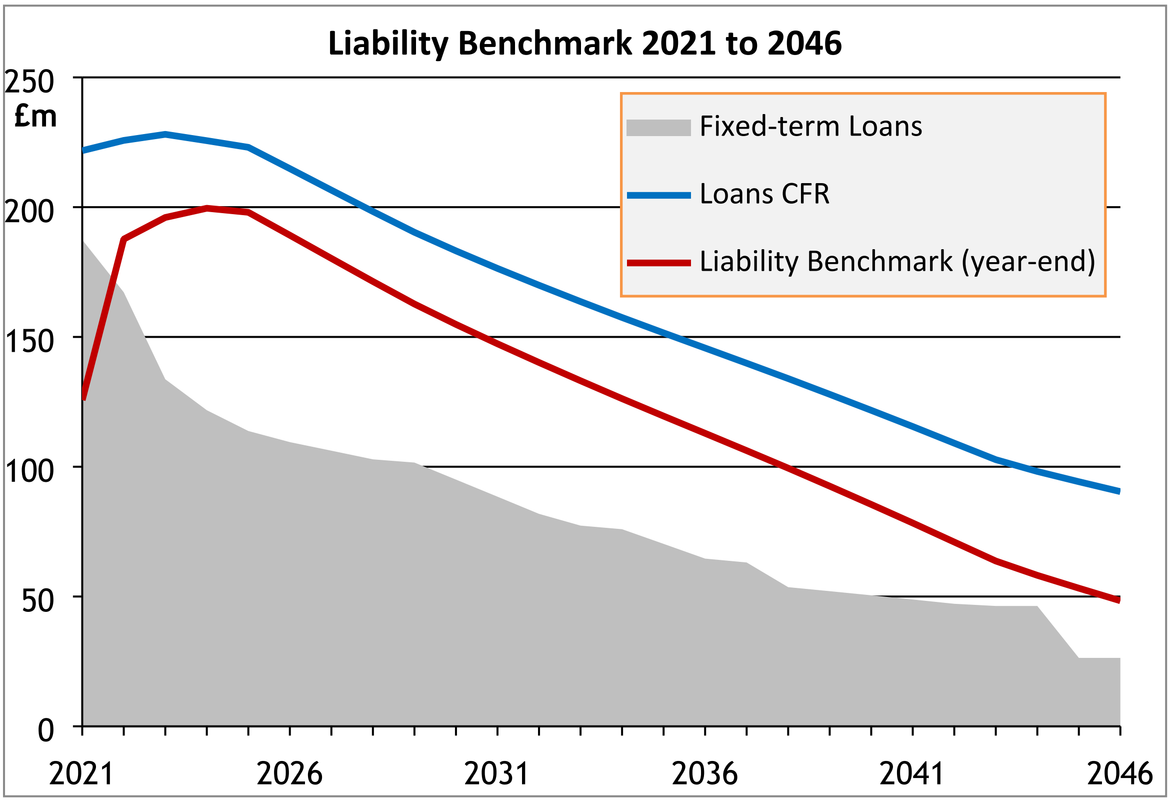
7.4. The estimates of gross debt for 2021/22 to 2024/25 include replacement borrowing for maturing loans and borrowing for schemes previously approved by Council for inclusion in the Capital Programme.

8. Liability Benchmark

8.1. As mentioned in paragraph 1.2 (above), CIPFA has issued revised codes of practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. One of the proposed changes to the Treasury Management code is the introduction of a liability benchmark that can be compared to the local authority's borrowing strategy and can be calculated to show the lowest risk level of borrowing.

8.2. CIPFA has indicated that authorities may defer the introduction of revised reporting requirements until 2023/24. Sefton has however, on the recommendation of CIPFA and following advice from its treasury management advisers, chosen to adopt a liability benchmark from 2022/23 onwards as best practice and to ensure a prudent borrowing strategy is maintained.

8.3. The chart below shows the liability benchmark that has been calculated for 2021 and future years:



8.4. The following explanations are provided to assist with understanding the chart:

i. Grey shaded area – represents the Council's current fixed term loans for 2021 and future years. The amounts shown do not include any new borrowing for schemes included in the capital programme or replacement borrowing for maturing loans, hence the line reduces over time as existing loans are paid off.

ii. Solid blue line – an estimate of Loans Capital Financing Requirement (the CFR less any other long-term debt liabilities), this being the required level to fund the capital programme.

iii. Solid red line – a forecast of the year end liability benchmark representing the lowest amount of borrowing that should be undertaken to maintain the Council's liquidity and minimise credit risk.

8.5. Where the liability benchmark exceeds the amount of fixed term loans then this indicates a borrowing requirement for the local authority. As can be seen above, Sefton has a borrowing requirement from 2022 onwards. This borrowing requirement arises as historic loans are paid off and the level of forecast reserves and balances diminishes over time.

8.6. It is anticipated that the above borrowing requirement is manageable within the current borrowing strategy. As mentioned in paragraph 7.2 (above), the Council is significantly under-borrowed and may reverse this position at any time by borrowing from the PWLB. Replacement loans from the PWLB will also be taken at lower rates than historic loans that were taken out when rates were higher and therefore interest payments on these loans will be lower.

9. Prudential Indicators – Treasury Management

9.1. 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:

9.2. Debt Maturity Profile

9.2.1. 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%

9.3. Principal Sums Invested for Periods Longer Than 365 Days

9.3.1. 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				
	2021/22	2022/23	2023/24	2024/25
Upper Limit	£15m	£15m	£10m	£10m

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

10. <u>Monitoring Prudential Indicators</u>

10.1. 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 **Appendix A**

Capital Expenditure					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
TOTAL	26.203	43.542	47.015	23.311	20.566

Financing Costs / Net Revenue Stream					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
Ratio	4.2%	4.1%	3.8%	3.6%	3.4%

Capital Financing Requirement					
	31/03/21 £m Actual	31/03/22 £m Estimate	31/03/23 £m Estimate	31/03/24 £m Estimate	31/03/25 £m Estimate
CFR	230.150	233.590	235.437	232.448	229.218

Gross Debt and the Capital Financing Requirement					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
CFR	230.150	233.590	235.437	232.448	229.218
Gross Debt	195.791	174.620	166.419	158.359	159.355
Under / (Over) Borrowing	34.360	58.970	69.018	74.089	69.863

Liability Benchmark 2021 to 2025 Projections in £millions					
31st March:	2021	2022	2023	2024	2025
Loans Capital Financing Requirement *	221.8	225.7	228.1	225.6	223.1
External Borrowing **	187.4	167.2	133.7	121.8	113.8
Liability Benchmark (year-end)	125.7	187.7	196.0	199.6	198.0

** CFR excluding other long-term debt liabilities*
*** Excluding new borrowing and other long-term debt liabilities.*

Operational Boundary				
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	200.000	198.000	192.000	196,000
Other Long-Term Liabilities	8.000	7.000	6.000	5,000
TOTAL	208.000	205.000	198.000	201.000

Authorised Limit				
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	215.000	213.000	207.000	211.000
Other Long Term Liabilities	8.000	7.000	6.000	5.000
TOTAL	223.000	220.000	213.000	216.000

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				
	2021/22	2022/23	2023/24	2024/25
Upper Limit	£15m	£15m	£10m	£10m

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Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)	**Date of Meeting:**	Tuesday 8 February 2022
Subject:	Treasury Management Policy and Strategy 2022/23		
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 (Appendix A)
b) Treasury Management Strategy (Appendix B)
c) Minimum Revenue Provision Policy Statement (Appendix C).

Recommendation(s):

Overview and Scrutiny Committee is recommended to:

1) Consider the proposed policies and strategy documents which include the objectives and operation of the Council's Treasury Management functions, the manner in which the Council will manage its investments and the methodology used to set aside revenue provision for the repayment of debt.

2) Provide any comments to Council that will be considered as part of the formal approval of the Treasury Management Policy, Treasury Management Strategy and Minimum Revenue Provisions Policy Statement.

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 2022/23.

Legal Implications:
None.

Equality Implications:
None.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The Council will during 2022/23, invest its reserves and balances overnight with either banks or money market funds in order to maintain high security and liquidity of such balances.

It may also have the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council’s Climate Emergency motion. In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with its Treasury Management Advisors.

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 (FD6690/22) is the author of the report.

The Chief Legal and Democratic Officer (LD4890/22) 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:

Appendix A – Treasury Management Policy 2022/23
Appendix B – Treasury Management Strategy 2022/23
Appendix C – Minimum Revenue Provision Policy Statement 2022/23

Background Papers:

There are no background papers available for inspection.

1. Background

1.1. The Council has adopted CIPFA's 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.

1.3. CIPFA published a revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021. The new codes take effect immediately, except that authorities may defer introducing revised reporting requirements until 2023/24. Sefton will therefore adopt the revised reporting requirements in the 2023/24 Treasury Management Policy and Strategy documents to allow time for proper scrutiny and consultation with treasury management advisers to take place.

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 2022/23; 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 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 **Appendix 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 **Appendix 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 statutory requirement to make an MRP charge does not apply to the Housing Revenue Account (HRA).

4.4. 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.

4.5. 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.

4.6. 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.

4.7. In November 2021, the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation seeking views on proposed changes to the (Capital Finance and Accounting) (England) Regulations 2003 to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year. The proposed changes seek to (1) stop local authorities using capital receipts in lieu of a prudential charge to revenue, and (2) to ensure that they make an MRP charge in respect of borrowing associated with investment assets or capital loans. These changes are not intended to have any impact on the Housing Revenue Account, or on treasury management activities that do not score as capital spend. The proposed changes will come into effect from 1 April 2023, and therefore do not require any amendments to the MRP policy for 2022/23.

4.8. The proposed MRP Policy Statement is set out in **Appendix C.**

Appendix A

Corporate Resources and Customer Services

Treasury Management Policy

2022/23

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 Certificate in International Treasury Management – Public Finance, 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 2022/23 is attached at **Appendix 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 their 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.

Appendix B

Corporate Resources and Customer Services

Treasury Management Strategy

2022/23

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 2022/23

2.1. The Strategy for 2022/23 covers:

a) Treasury Limits in force which will limit the borrowing activity of the Council (2.2);
b) Prudential Indicators 2022/23 to 2024/25 (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) Non-Treasury Investments (2.15);
n) Ethical Investing (2.14.146);
o) The Climate Emergency (2.17):
p) Member and Officer Training (2.18).

2.2. Treasury Limits for 2022/23

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

Affordable Borrowing Limit	Maximum £220m

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 2022/23, 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 2022/23	**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 is set on the value of principal sums invested for periods over 365 days 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 2022/23 and the next two years are shown below:

Principal Sums Invested for Longer Than 365 Days			
	2022/23	2023/24	2024/25
Upper Limit	£15m	£10m	£10m

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 also be considered in terms of asset class, 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 **Appendix 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. **Appendix 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 has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.

2.7.2. 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	31/12/2021
Average Interest Rate	3.74%
Debt Outstanding – Fixed Rate	£m
PWLB	169.849
Other Long-Term Liabilities	8.138
Total Debt	**177.987**

2.8.2. Other long-term liabilities shown above represent transferred debt from the Merseyside Residuary Body (£1.969m) and finance lease liabilities (£6.169m).

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 2022/23 is as follows:

Borrowing Requirement	Estimate £m
New Borrowing	6.244
Replacement Borrowing	20.000
Total Borrowing	**26.244**

2.8.6. The new borrowing represents the unsupported borrowing as required by the Capital Programme in 2022/23 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 **Appendix 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 2021, plus other long-term liabilities, is £178m, as against an estimated CFR of £234m for 2021/22. This means that the Council is in a position to borrow a further £56m which would take the current borrowing level to the level of the CFR. This strategy is described as being internally borrowed which has 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, 2022/23 is expected to experience a continuation of a relatively low base rate. 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 2022/23. 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. 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. The PWLB will not however, lend to any authority that plans to buy investment assets primarily for yield anywhere in their capital plans. The Council intends to avoid this activity in order to retain its access to PWLB loans.

2.9.2. PWLB borrowing rates will 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).

2.9.3. 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 2022/23, 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 £220m. 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 and members 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 2021 is set out below:

Investments Portfolio	**£m**
Bank Deposits	12.64
Money Market Funds	73.00
CCLA Property Fund	5.00
Total	90.64

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 0.25%. Arlingclose's projection is for this to rise to 0.50% by March 2022 and remain unchanged thereafter (**Appendix 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 2022/23 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. Non-Treasury Investments: Loans

2.15.1. The Council will invest its money to support local public services and stimulate local economic growth by providing loans to its subsidiaries. These types of investments are classified as non-treasury investments, further detail of which can be found in the Capital Strategy included in the agenda for this meeting.

2.15.2. Cabinet as the shareholder has agreed the provision of a peak debt facility to Sandway Homes Limited that is due to reach £8.3m before reducing to £3.7m by the end of 2022/23. As this sum is drawn down as per the agreed loan agreement, the Council will if required provide for this sum via the Public Works Loan Board. These sums are included in the prudential indicators for 2022/23 included on this agenda.

2.15.3. A similar arrangement exists for the wholly owned hospitality company, Sefton Hospitality Operations Limited for whom a lower debt facility of £0.5m has been provided.

2.16. Ethical Investment Principles

2.16.1. 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.

2.16.2. 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.

2.17. The Climate Emergency

2.17.1. 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.

2.17.2. In recent years, the Council has seen its level of reserves and balances (excluding emergency Covid funding) 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.

2.17.3. 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.

2.18. Member and Officer training

2.18.1. 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.

2.18.2. In order to address this, the Service Manager – Treasury & Capital has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification Certificate in International Treasury Management – Public Finance, 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 and it is intended for such training to occur at least annually.

Appendix B1

INTEREST RATE FORECAST

Arlingclose Interest Rate Forecast as at December 2021

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:

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B2

Arlingclose Economic and Interest Rate Forecast (Commentary)

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

Appendix 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.

Appendix C

Corporate Resources and Customer Services

Minimum Revenue Provision Policy Statement

2022/23

Sefton Council

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 Capital Financing Requirement (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 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 2022/23

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 for approval in-line with the Council's Financial Procedure Rules prior to the application of the capital receipts.

4.8. Housing Revenue Account

The Housing Revenue Account (HRA) is not subject to a statutory requirement to make a minimum revenue provision. As a result, the MRP policy set out above only applies to borrowing to fund none HRA assets. However, the Council may make an annual voluntary provision for debt repayment in the HRA. The level of provision (if any) will be determined annually as part of the closure of the HRA.

Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)	**Date of Meeting:**	Tuesday 8 February 2022
Subject:	Capital Strategy 2022/23 to 2026/27		
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, borrowing 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):

Overview and Scrutiny Committee is recommended to:

1) Consider the proposed Capital Strategy document as set out in Appendix A.

2) Provide any comments to Council that will be considered as part of the formal approval of the Capital Strategy 2022/23 to 2026/27.

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

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

There are no direct climate change implications from the proposals set out in this report.

Contribution to the Council's Core Purpose:

<u>Protect the most vulnerable</u>:
The Capital Strategy will enable the Council to continue to seek to protect the most vulnerable within available resources.

<u>Facilitate confident and resilient communities:</u>
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 a surplus 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 (FD6691/22) is the author of the report.

The Chief Legal and Democratic Officer (LD4891/22) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

Officers will be authorised to implement all decisions within this report immediately following Council on 3 March 2022.

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

Appendices:

Appendix A – Capital Strategy 2022/23 to 2026/27

Background Papers:

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.

1.2 The Council has adopted CIPFA's 2017 Prudential Code for Capital Finance in Local Authorities. CIPFA published a revised Prudential Code for Capital Finance in Local Authorities in December 2021. The new codes take effect immediately, except that authorities may defer introducing revised reporting requirements until 2023/24. Sefton will therefore adopt the revised changes to the Capital Strategy for 2023/24 to allow time for proper scrutiny to take place.

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.

2.3 A summary of the Council's current capital programme is included as part of the Council's main budget report also on today's agenda, and this will be updated as future capital decisions are made.

Appendix A

Corporate Resources and Customer Services

Capital Strategy

2022/23 to 2026/27

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.

- 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.

- 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 provides value for money, 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. Significant additional investment is being made in Children's Social Care and Adult Social Care and so it is critical that these services achieve that value for money and operate as efficiently as possible.

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 in accordance with the Financial Procedure Rules.

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 three 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 and including £100k can be approved by the Section 151 Officer and Chief Executive;
- In excess of £100k up to and including £250k can be approved by the S151 Officer and Cabinet Member – Regulatory, Compliance and Corporate Services;
- In excess of £250k up to and including £1m can be approved by Cabinet;
- In excess of £1m+ can be approved by Council with a recommendation from Cabinet.

B. Council approves the inclusion of capital block grant allocations within the capital programme. The respective Cabinet Members in conjunction with the Council's Section 151 Officer have delegated authority to allocate capital grants to capital projects to be included within the capital programme up to a level of £1m per individual scheme. Schemes above this threshold will require approval by Council.

C. 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 Capital Programme will be continually updated as part of each budget cycle to take into account any decisions made in the year.

3. Capital Expenditure and Resources

3.1 Capital expenditure is broadly defined as expenditure on the acquisition of a tangible asset, or expenditure which enhances (rather than merely maintains), the value of an existing asset and/or the useful life of an asset and increasing usability, provided that the asset yields benefits to the Council and the services it provides is for a period of more than one year. Sefton's de minimis level for new assets is currently £10,000. This limit can be varied at the discretion of the Section 151 Officer.

3.2 The actual capital expenditure that was incurred in 2020/21 is shown below and the estimated current and future years capital programme that are as follows:

Capital Expenditure					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
TOTAL	26.203	43.542	47.015	23.311	20.566

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

3.4 The increase in capital expenditure during 2021/22 and 2022/23 represents additional allocations added as part of the traditional capital programme and new schemes included in the Council's Strategic Investment Programme. Due to the size and complexity of the Council's capital programme, some schemes may also be rescheduled from previous years and thus increase the overall estimate of expenditure. 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.

3.5 There are also Town Deal proposals currently being progressed which may impact on the estimates of capital expenditure presented in this document (see Section 7 "Town Deal").

3.6 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.

3.7 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.

3.8 Capital expenditure is typically funded from:

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

- Capital Receipts

Prudential Borrowing

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

3.14 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.

3.15 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. Sandway Homes Limited

6.1 The Council has a 100% wholly owned company in Sandway Homes Limited with Cabinet being the shareholder and a shareholder representative sitting on the Company's Board of Directors. As such Cabinet is responsible for making all decisions in respect of approving the governance arrangements, the Business Plan and any variations to it, in addition to the financial estimates and arrangements including the provision of a debt facility that supports working capital.

6.2 The role of Cabinet reflects the provisions in the Council's Constitution that it should undertake the shareholding function on behalf the Council and take all necessary steps to manage and safeguard any shareholding the Council owns in a company.

6.3 The last Business Plan update was provided to Cabinet in October 2021 with further requested detail being provided in December 2021. This builds on previous annual business plan updates that are provided which then inform budget estimates that are included in the Medium Term Financial Plan for subsequent years. The last Business Plan estimated that a dividend of £1.350m would be paid to the Council in 2024/25 upon completion of Phase 1 and this figure is included in the latest Medium Term Financial Plan.

6.4 The current peak debt estimate for the company is £8.3m with this due to be reached in the first half of 2022 with this reducing to £3.7m by the end of 2022/23.

6.5 A similar arrangement exists for the wholly owned hospitality company, Sefton Hospitality Operations Limited for whom a lower debt facility of £0.5m has been provided.

7. Southport Town Deal

7.1 Southport is set to receive £37.5m in government funding for a range of projects across the town centre and sea front following a successful bid to the Government's Towns Fund. The award represents one of the largest Town Deals that the government has agreed nationally and across 101 towns.

7.2 Cabinet approved the 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.

7.3 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

7.4 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, and which Council approvals will be required in accordance with Financial Procedure Rules.

7.5 The first 5% of the Town Deal funding (£1.875m) has been released to Sefton to support pre-development work and project progression, with work ongoing on business cases during 2022 to enable final approval and release of the balance of the Town Deal funding. There has also been approval in principle from the Liverpool City Region Combined Authority for additional support linked to one specific Town Deal project (the Marine Lake Events Centre) of up to £20m - subject to the appropriate funding requirements being met.

8. Non-Financial Investment Strategy

8.1 The Council's non-treasury investments consist of an Investment Property portfolio of over 210 properties. They delivered a return for the Council after deducting for the cost of maintenance, net income of £2.196m in 2020/21, which contributes towards the provision of services.

8.2 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.

8.3 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 2021 was £49.11m. All investment properties are valued at greater than original purchase price and have hence produced an unrealised capital return.

8.4 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.

8.5 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 Council's approved prudential indicators.

9. Debt, Borrowing and Treasury Management

9.1 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.

9.2 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.

9.3 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.

9.4 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.

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

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Authorised Limit	223	220	213	216

9.6 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.

9.7 The Council has regard to the Department for Levelling Up, Housing and Communities' (DLUHC) 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.

10. Public Works Loan Board (PWLB) Consultation

10.1 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.

10.2 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.

10.3 Following a period of consultation, the government has issued revised lending terms for the PWLB and guidance to support councils to determine if a proposed project is an appropriate use of PWLB loans. The main features of the new lending terms for Councils intending to borrow from the PWLB are:

- Councils are asked to submit a high-level description of their capital spending and financing plans for the following three years, including expected use of the PWLB. Councils will be able to revise these plans in year as required.
- Councils will be asked to provide details of the following:
  - how much they plan to spend each year in each of the following set of categories, which have been developed in consultation with the sector and cover all acceptable capital activity that can be funded via PWLB loans.
    - Service spending
    - Housing
    - Regeneration
    - Preventative; and
    - Treasury Management

  - a short description of the main projects in each of these categories covering 75% of the spending in that category
  - The Section 151 Officer or equivalent must provide assurance that the council is not borrowing in advance of need and does not intent to buy investment assets primarily for yield.

10.4 The decision over whether a project complies with the terms of the PWLB loan is for the authority’s Section 151 Officer or equivalent. However, HM Treasury may intervene if it has concerns that issuing the loan is incompatible with HM Treasury guidance.

11. Risk Management

11.1 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.

11.2 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.

11.3 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.

11.4 Treasury management risk is managed in line with DLUHC 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.

11.5 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.

12. Knowledge and Skills

12.1 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.

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

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

12.4 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.

12.5 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.

12.6 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.

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Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) Cabinet Council	Date of Meeting:	8 February 2022 10 February 2022 3 March 2022
Subject:	Robustness of the 2022/23 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; and
b) The adequacy of the proposed financial reserves.

The Council is requested to have regard to the matters raised in this report during the final stages of determining the budget for 2022/23.

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 Budgets and Council Tax for 2022/23 and thereby shape the Council's financial plan for future years.

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

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 for 2022/23 on or before 10 March 2022 and must consider the comments of the Chief Financial Officer before that decision is taken.

Equality Implications:
There are no equality implications.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

The allocations of capital funding included in the Budget Report may be spent on projects that will have a high climate change impact as they could relate to new build, rebuild, refurbishment, retrofit and demolition proposals. Environmental consideration will be taken into account when specific projects are designed and tendered – which will help to mitigate negative impacts.

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 6687/22).

Chief Legal and Democratic Officer has been consulted and his comments are incorporated in the report (LD 4887/22).

(B) External Consultations
None

Implementation Date for the Decision

Immediately following the 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 and the adequacy of proposed reserves.

2. ROBUSTNESS OF BUDGET ESTIMATES

2.1 The budget for 2022/23 has been developed whilst the Council continues to deal with the ongoing financial impact of the COVID pandemic on a number of key services and income sources. This impact will continue for years to come and the understanding of impact and identification of mitigation measures is a key feature of the 2022/23 budget and will be a key feature of budgets to come, thus increasing the complexity of budget setting and also the financial pressure on the Council- this will impact financial sustainability.

2.2 As with the previous financial year, developing a robust set of budget estimates for the financial year 2022/23 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 2021/22 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 reported to Members over the last 12 months, the Council budget for 2021/22 included a number of short term financial measures and support to mitigate the financial implications of the pandemic- a number of these were met via central government support provided for a specific purpose and some required Council support. Moving into 2022/23 a lot of this support will come to an end and the budget estimates have had to be updated to take account of the longer term impact of the pandemic on key services and income streams, with continued uncertainty around whether this impact is permanent or temporary. The areas of the Council's budget where a residual impact remains and consideration has been given to it in this budget include:-

- Business Rates Income;
- Council Tax Income;
- Adult Social Care Budget;
- Children's Social Care Budget;
- Leisure Income; and
- Cost of Waste Disposal

2.4 As a result of each of these the accompanying budget report details how they have affected the Council's Medium Term Financial Plan assumptions, where additional investment is to be made in services (Adults and Children's Social Care) and where one-off support is being provided pending an understanding of the longer term financial impact (Leisure income and waste disposal costs).

2.5 In respect of Children's Social Care, the Council has invested a significant sum in the service during 2021/22 and a further £4.3m is proposed in 2022/23. This will cover the cost of a service staffing review, inflation provision for existing contracts and growth in the placements and packages budget. This budget has seen significant investment over the last 4 years with growth from £33m in 2018/19 to what will be £52m in 2022/23. As such this represents the biggest financial risk to the Council from a budget and financial sustainability point of view at this point in time. Provision has been made in the 2022/23 budget as discussed but there is no further growth proposed in the Medium-Term Financial plan from 2023/24 onwards. In the absence of any further government support, if further growth in the staffing establishment or placements and packages budget is required then corresponding savings will be required from elsewhere in the budget to pay for this. This is something that will need to be determined and decided upon early in the financial year in order that sufficient time is available prior to 2023/24. Likewise, if there is pressure within this budget during 2022/23 that exceeds the funding available, corresponding savings will need to be made in year within other areas of the approved budget - due to the issues in this service, these savings maybe significant and will require quick decisions to ensure financial sustainability is maintained.

2.6 Similarly, Adult Social Care, as the largest budget within the Council, has been the subject of unprecedented change over the last two financial years. In supporting providers, the Council has always made available £2m in its Medium-Term Financial Plan to increase the budgets each year. Any variations have been met by the service. As a result of the government announcement with regard to the National Living Wage and an increase of around 6.6% for 2022/23, there has been a need to increase the Council's budget provision by a further £3.5m for this year. This is the Council's affordability envelope for this provider fee increase. The Council's Medium-Term Financial Plan has maintained the £2m provision for provider fee increases for 2023/24 and beyond. If central government increase national living wage at levels similar to this year, i.e. around 6%, then the Council will be faced with a decision as to whether to maintain its affordability envelope or identify savings elsewhere in its budget to pay for this increase in the absence of further direct government support.

2.7 It is important to recognise that within the Comprehensive Spending Review (CSR), government announced further grant funding for councils for 2022/23 which is reflected in this budget, but there is no further grant funding that will be made available after this first year- the only additional support that councils can access is a potential 1% Adult Social Care levy (this is the assumption made in the CSR). This equates to £1.4m for Sefton. From this it can be seen that government are making no further funding for investment in Children's Social Care, thus at this point any investment proposed by the Council as previously stated will need to come from savings elsewhere in the existing budget. In respect of Adult Social Care, at present government are suggesting that a 1%

increase should cover the increased costs of Adult Social Care from 2023/24, pending further detail being made available on the future allocation of the Adult Social Care -Market Sustainability & Fair Cost of Care Fund and funding for the other elements of Adult Social Care Reform. This amount is below the Council's current provision of £2m per annum and doesn't reflect the potential for significant increases in National Living Wage nor financial pressure currently being experienced by providers. Also, no additional information has been given on the potential allocation of funding relating to Adult Social Care Reform for individual local authorities beyond 2022/23, however some commentators have suggested that the funding may not be sufficient to fund the potential increases in costs.

2.8 The estimates for the financial year in these two key areas are robust, however due to no government support being confirmed after 2022/23 any further investment will require savings to be made in other areas of the Council's budget and details of this should come through in the first quarter of 2022/23.

Ongoing impact of COVID

2.9 In developing this budget plan, consideration has been given to the ongoing impact of the pandemic.

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

- Temporary budget provision being made in respect of continued loss of income from sales, fees and charges income.
- Temporary budget provision being made for the increased waste disposal costs; and
- Permanent Medium-Term Financial Plan and budget changes being made in respect of Council Tax and Business Rates income.

2.11 It is important to note that no specific additional central government support is being made available to the Council for 2022/23 to mitigate the financial impact of the pandemic.

2.12 With regard to the loss of sales, fees and charges income (predominantly in Leisure) and the increased waste disposal costs, at present it is unclear whether these financial pressures are temporary in nature or will represent a 'new normal'- work will be undertaken during the first six months of 2022/23 to further evaluate this- in the event that these pressures continue they will need to be reflected in the Council's Medium-Term Financial Plan and corresponding savings will be required. However, for 2022/23 the correct budget provision has been made based on information available at this point in time.

Framework for Change

2.13 In February 2020, Council approved the three-year Framework for Change Programme, the last year of which is 2022/23. A significant amount of work has been undertaken on this Programme in its three key workstreams, Demand Management , Council of 2023 and Growth and Strategic Investment. The aims and objectives of this programme are well established and in progress, with changes having been made during the Programme as expected to reflect differing demands on services, the financial position of the Council and, naturally, the pandemic. The Programme will support the delivery of the 2022/23 budget.

As discussed earlier, in the event that further growth and investment is required in key services and corresponding savings are required, the Council will need to determine early in 2022/23 whether it has the next iteration of a change programme for 2023/24 to 2025/26 that will have financial sustainability at its core or whether it will move to a more traditional development of a savings programme.

2.14 Within this budget package there are two savings/income streams attributable to the Framework for Change programme:-

- Council of 2023- savings of £0.890m in respect of New Ways of Working are included- these have been signed off as deliverable by project leads.
- Demand Management- savings of £3.800m have been identified within Adult Social Care. These savings have been agreed by the Executive Director of Adult Social Care and Health and the external support that was brought in to support the service, although £1m of this saving will be phased to be introduced in 2023/24

Resources to Deliver Framework for Change 2020 and the proposed 2022/23 Budget

2.15 During the last three years and especially during the pandemic, when additional temporary funding has been made available to support the response and ongoing implications, additional staff resources have been brought into the Council to support this and this has been invaluable. As stated, there is now no ongoing central government support therefore those staff brought in on temporary arrangements will see those contracts expire as originally set out.

Similarly the Council Cost of Change budget for Framework for Change 2020, has now been fully utilised, therefore there is no further budget provision in this year to provide short term financial support for additional staffing or cost of delivery / change across the Council- any such requests will need to be funded by services.

As this paper has shown, in the 2022/23 budget where there is investment in services, the Council continues to provide this to the most acute areas of its budget and this aligns with the core purpose and it reflects decisions over the last decade which have prioritised supporting the most vulnerable. As such there is no investment in those services that could be considered as enablers to the delivery of the framework for change. The Council will need to therefore deliver the final year of its Framework for Change programme and its core business from within the approved budget envelope with any investment in additional resources coming from that budget as no short-term additionality is available. This principle will need to be followed for any spending pressure that is identified in year- a clear and deliverable mitigation plan will be required that is funded from the approved 2022/23 budget.

Factors to be Considered

Impact of Previous Years' Budget – 2022/23

2.15 As a result of the continued pressure and complexity on the Council's budget, as is the case each year, the starting point for budget development is ensuring that services start the year with an appropriate budget to meet current demand. In setting the budget for 2022/23, the Councils position as at the end of November 2021 has been taken to inform this. The Council at that point was reporting a small net underspend for the year but with most significant pressure in Children's Social Care. As reported earlier, additional provision has been made to that budget for 2022/23 and it is considered that all remaining budgets will move into the new year with no changes from 2021/22 except where detailed in the budget report.

2.16 This position may vary between the time of establishing the budget and year end. As such the first monitoring report of 2022/23 will need to identify any emerging issues and required remedial actions.

Central Government funding

2022/23

2.17 For 2022/23, the Council has received a one-year financial settlement, despite a three-year Comprehensive Spending Review being announced in October 2022.

2.18 Within this settlement the Council has been provided with certainty around the funding it will receive during 2022/23 to support the core council budget.

Maintaining Service Delivery

2.19 As has been previously reported, 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 2022/23, the key challenge faced by the Council will once again be in respect of its demand led budgets, especially Children's Social Care and Adult Social Care. Children's Social Care is progressing through the delivery of its improvement and investment plans during a time of unprecedented increased demand and complexity – additional budget provision has been made available once again to support this but this service remains the key financial risk for 2022/23.

2.20 As previously discussed, Adults Social Care has seen a significant impact across the sector as a result of the pandemic that will require continual management through the year. At the same time work will need to commence to support the introduction of the Health and Social Care reforms recently announced by central government at the same time as delivering significant savings.

These two areas will need to be the focus of financial management activity during the year and any material changes to budget assumptions will need to be met by corresponding savings elsewhere in the budget both on a short and long term basis.

Inflation and Annual Cost Increases

2.21 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. It is acknowledged that inflation at present within the UK is at levels not seen for some considerable time and will place pressure on both existing and future revenue and capital budgets. As such, in the absence of further external funding, expenditure in some areas will need to be prioritised to ensure that it can be contained within approved levels. This is a risk that will need to be managed in year

Financial Management

2.22 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.

2.23 To support this approach a continual training offer is available to all budget holders, schemes of delegation for each service are reviewed and where appropriate updated on a quarterly basis and a new budget monitoring forecasting system is being introduced during the latter part of 2021/22. The Council's Financial Procedure Rules were last updated in November 2020 and will be reviewed again during the first half of 2022/23 and will be presented to Audit and Governance committee and Council for approval.

2.24 It has been reflected 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.

2.25 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 Council's 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

2.26 The financial risks facing the Council in 2022/23 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.

2.27 During the last two years, it has been widely publicised that a number of these authorities have encountered real financial difficulties with some issuing s114 notices and others requiring other elements of government intervention and support. It is important that the Council learns the lessons from these experiences elsewhere to inform its own approach to decision making and financial sustainability. To support this, CIPFA produce both a resilience index and financial management code that aim to evaluate a council's financial resilience and ensure that financial management is of the required standard across the organisation.

<u>CIPFA Financial Resilience Index</u>

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, 3 relate to the proportion of expenditure on high risk services (e.g. Adult and Children's Social Care) and 5 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 2020/21. Therefore, the comments below relate to the position as at the end of 2019/20 published at the beginning of 2021.

2.38 When compared to other metropolitan district councils Sefton would appear to compare fairly 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. However, this was prior to the significant additional investment which was made in Children's Social Care in 2020/21, 2021/22 and 2022/23 which may present additional challenges with regard to future budget flexibility.

2.39 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.

2.40 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 2019/20 being relatively lower than many other metropolitan councils. A strategy was agreed to address the comparatively low level of reserves and it is anticipated that this will result in an improvement to the position when the 2020/21 Resilience Index is published by CIPFA.

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. 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 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. The output from this exercise was presented to Audit and Governance Committee in March 2021 and this highlighted that many areas of good practice in financial management are evident across the organisation. An action plan to further improve compliance with the Code was also presented to Audit and Governance Committee and this was shared with the external auditor as part of their value for money assessment.

2.44 Performance against the action plan is being monitored and the output will be presented to Audit and Governance committee and the external auditor in due course.

Management of Risk

2.45 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.

2.46 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 and demand for core services where financial control of expenditure is sometimes limited. 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.

2.47 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.

Capital Strategy and Strategic Investment

2.48 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 2022/23 and an indicative plan for future years.

2.49 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 three to five 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

2.50 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

2.51 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 2022/23

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 delivery or 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 above the level that has been maintained by the Council in recent years, as the CIPFA resilience index has previously identified. As a result, the Council agreed as part of its financial strategy to increase the contributions to this reserve over the last two years in order to mitigate the risk 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 ongoing impact of the 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 2022/23 with the potential for further 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 compared to current budget assumptions. 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 as the budget report reflects.

3.6 **Anticipated reductions in Government funding** – the level of funding that it is anticipated that the Council will receive in 2022/23 reflects the three-year Comprehensive Spending Review announced in October 2021 and the Provisional Local Government Finance settlement received on 16 December 2021. In addition, the Council has been notified of other grant allocations for 2022/23. These funding levels are included in the Budget Plan.

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- this is especially true in respect of Adults and Children's Social Care in 2022/23. 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 2022/23 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. Based on the financial position as at the end of November 2021, this budget will be re-aligned for 2022/23, however as discussed in this report there is still significant risk that needs to be allowed for as this represents the biggest threat to the financial sustainability of the council

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.

3.10 Balance Sheet Risk- As reported in previous months, the Council has areas of activity for which a balance is held on the Balance Sheet, two such issues being in respect of the High Needs Budget and Sandway Homes Limited. The financial issues, implications and risks associated with these have been reported and if they materialise will require financing strategies to address them.

Budget Setting Assumptions

3.10 **Sensitivity of budget assumptions** - The Council's budgets for 2022/23 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. The current issue around inflation is of particular concern.

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%**	**12.0**
National Considerations		
- Impact of economic climate (including the pandemic) on Council costs and Collection Fund income	1.0%	2.4
- Potential further reductions in Government Funding	1.0%	2.4
Local Considerations		
- Delivery of planned changes in service delivery methods/contracts	0.5%	1.2
- Costs at risk from potential legal challenges	0.5%	1.2
- Rising demand for services -Children's Social Care	2.0%	4.8
- Balance Sheet Risk -including High Needs Budget	1.0%	2.4
Budget Setting Assumptions		
- Sensitivity of budget assumptions	0.5%	1.2
- Earmarked Reserves	-2.5%	-6.0
Management / Member Actions		
- Clear corporate / Member messages	-1.5%	-3.6
- Three-year MTFP and Framework for Change 2020	-1.0%	-2.4
Total Abnormal Risk	**1.5%**	**3.6**
Total Risk	**6.5%**	**15.6**

3.15 This shows that a risk adjusted assessment of the required level for the General Fund in 2022/23 should be in the region of £15.6m. A range of £1.0m is advised around this figure so a General Fund reserve between £14.6m and £16.6m would be considered prudent. This represents 6.5% of the Council's net budget.

3.16 The Council started 2021/22 with a General Fund balance of £11.278m and as discussed due to the low-level Members approved a strategy to increase the level of General Fund balances by £1.5m each year. Assuming no calls on these balances during the year this will result in a balance at year end of £12.778m. In addition, the budget report includes provision for an increase in General Balances of £2.892m, funded from the net Council Tax / Business Rates surplus declared for 2022/23. This would therefore increase balances to £15.670m during 2022/23, in line with the current risk assessment.

Earmarked Reserves

3.17 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.

3.18 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 2021	Estimated March 2022
	£m	**£m**
Earmarked Reserves		
- Strategic Reserves	17.056	11.856
- Committed Reserves	9.961	9.961
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	1.758	1.921
- Temporary Reserves	69.538	23.128
	98.313	**46.866**
School Earmarked Reserves	-6.615	-8.415
Total Earmarked Reserves per Statement of Accounts	**91.698**	**38.451**

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 47 existing earmarked reserves (excluding unutilised grants and contributions), 38 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 the most recent three-year MTFP period funding was allocated to support the cost of school closures, with a balance of £1m currently being available. 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 three out of six will be in a deficit position by the end of 2021/22 (as well as three primary schools and one pupil referral unit). 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 at least £10.0m at the end of 2021/22 and is forecast to rise again in 2022/23. 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 DLUHC and DFE 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 DfE 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 December 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 2021/22 is estimated to be in the region of **£4.8m**.

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 2021/22 is estimated to be **£22.7m**. 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.

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Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)	**Date of Meeting:**	8 February 2022
Subject:	Revenue and Capital Budget Plan 2022/23 – 2024/25 and Council Tax 2022/23		
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:
On 10 February 2022, Cabinet will be asked to recommend to Council a Budget Plan for 2022/23. On 3 March 2022, the Council will be asked to consider and approve the Budget Plan for 2022/23 – 2024/25, and also the level of Council Tax for 2022/23. This report will provide Overview & Scrutiny Committee with:

- An assessment of the Council's current financial position and approach to the 2022/23 Budget Plan and preparation for the additional two-year budget period 2023/24 to 2024/25.
- An update on the Government's announcement of resources that are available to the Council for 2022/23.
- The Council's current financial position and the assumptions built into the Medium-Term Financial Plan.
- The proposed Budget for 2022/23; and,
- The proposed Capital Programme for 2022/23.

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.

The Overview & Scrutiny Committee will wish to consider the report and provide any comments to Cabinet regarding the Budget Plan for 2022/23 – 2024/25 and setting the Council Tax for Sefton Council for 2022/23.

Recommendation(s):
Overview and Scrutiny is recommended to:

1. Note the update of the Medium-Term Financial Plan for the period 2022/23 to 2024/25; and,

2. Consider the proposals within the report and to provide any comments to Cabinet which can be considered as part of the formal approval of the Budget Plan for 2022/23 – 2024/25 and the Council Tax for 2022/23.

Reasons for the Recommendation(s):

To ensure that Overview and Scrutiny Committee is fully aware of the latest MTFP position and the proposals which need to be implemented to balance the budget in the next financial year. This engagement will support the Council in its duty to agree a budget and the level of Council Tax for 2022/23 on or before the statutory date of 10 March 2022.

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 2022. 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, in line with approved delegations. 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.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

The allocations of capital funding outlined in Appendix C may be spent on projects that will have a high climate change impact as they could relate to new build, rebuild, refurbishment, retrofit and demolition proposals. Environmental consideration will be taken into account when specific projects are designed and tendered – which will help to mitigate negative impacts.

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 (FD6686/22) is the joint author of the report and the Chief Legal and Democratic Officer (LD4886/22) 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 2022/23. 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

Cabinet on 10 February 2022 will receive and consider any comments on the Budget Plan from this Committee. Cabinet will then recommend the Budget Plan to Council (including any changes from Overview & Scrutiny Committee that are included by Cabinet). Officers will then be authorised to implement all decisions within the Budget report immediately following Council approval on 3 March 2022.

Contact Officers:	Dwayne Johnson and Stephan Van Arendsen
Email Addresses:	Dwayne.Johnson@sefton.gov.uk Stephan.VanArendsen@sefton.gov.uk

Appendices:

The following appendices are attached to this report:

A. Individual School Budgets 2022/23
B. Draft Council Budget Summary 2022/23
C. Capital Programme 2022/23 – 2024/25

Background Papers:

Financial Management 2021/22 to 2024/25 and Framework for Change 2020 – Medium Term Financial Plan 2022/23 to 2024/25– Report to Cabinet and Council – 4 and 18 November 2021

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 2022/23 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 2023/24 to 2024/25. In doing so the report presents the proposed budget for 2022/23.

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 and 2021/22 with the COVID-19 pandemic having had a massive impact on local authority finances. Although funding has been made available by the government to help councils respond to the pandemic and mitigate the income losses they have incurred, the pandemic has only added to the level of financial stress local authorities are experiencing and this will continue for some time. 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 and 2021/22 will continue to some degree into 2022/23 and beyond and is a significant threat to the financial sustainability of local authorities and the ability to meet the requirements of local residents in the absence of continued central government support.

2.6. In the last four years there has been some, what was originally temporary, funding allocated by Central Government to councils in addition to core funding to assist with the pressures being experienced across the sector, especially in adult social care. These short-term funding initiatives, whilst welcome, do not meet the spending pressures that local authorities, including Sefton, are experiencing; nor did they make it possible for councils to effectively plan over the short and medium term. Although originally provided as temporary funding, the Government have continued to allocate this funding in all settlements to date, giving the impression that this funding is now permanent. However, despite this funding, local government continues to be underfunded, with key services that affect the most vulnerable in society not being sustainably supported.

2.7. The Comprehensive Spending Review 2021, published on 27 October 2021, contained a number of announcements relating to overall local government funding for 2022/23 to 2024/25. The Provisional Local Government Finance Settlement for 2022/23, announced on 16 December 2021, gave more detail on the impact of these announcements on Sefton (see paragraphs 4.4 to 4.19). However, whilst the Comprehensive Spending Review covered 2022/23 to 2024/25, the Provisional Settlement only covered 2022/23. The detail for 2023/24 and 2024/25 is only expected to be known when the Provisional Settlements are announced in the December prior to each year. Members will recall that in the budget report for 2021/22 it was stated that if it received a three-year financial settlement that the Council would wish to return to multi-year budgeting to support financial sustainability. Whilst only a one-year Settlement has been announced it is still vital that the Council considers a three-year Budget Plan.

2.8. In addition, there are two significant changes to local government funding that were originally expected to be introduced from April 2021 relating to the Review of Relative Needs and Resources (formerly the Fair Funding Review) and the introduction of 75% Business Rates Retention for all local authorities. When announcing the Provisional Settlement, the Secretary of State for Levelling Up, Housing and Communities stated that "*Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources*" and " *Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes*". Therefore, it is assumed that the Review of Relative Needs and Resources will be completed in time to be used in allocating funding for 2023/24 onwards. However, the Government announced in November 2021 that it had abandoned plans for the introduction of 75% Business Rates Retention for all local authorities, although the impact of this for Pilot authorities will be assessed as part of the Review of Relative Needs and Resources. As with previous years these are explained below for Members consideration:

<u>Review of Relative Needs and Resources (formerly the Fair Funding Review):</u>

2.9. 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.

2.10. 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. The potential implications for Sefton are discussed later in the report (paragraphs 5.18 to 5.22).

2.11. The Government will continue to consult with local authorities as well as be influenced by discussions within a number of joint working groups between the Department of Levelling Up, Housing and Communities 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:

2.12. 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.

2.13. As part of the Review of Relative Needs and Resources, the Business Rates baseline will be re-assessed and changed. Therefore, the benefit of these gains is expected to be lost going forward.

2.14. As mentioned above, nationally the proportion of Business Rates retained by local authorities will now remain at 50%. It is expected that pilot authorities will also move to 50% retention so a lower proportion (49%) of any future growth will be retained by the Council.

2.15. As stated, these two changes have now been deferred to April 2023 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 2022/23. The Local Government Association has argued that no council should see a reduction in its funding as a result of the changes. However, given that no additional funding is proposed for 2023/24 or 2024/25 it seems unlikely that this will be the case; inevitably there will be winners and losers. As explained in paragraphs 5.18 to 5.22, Sefton is expected to lose funding due to these changes. In addition, the Local Government Association have stated that due to no additional government funding being proposed for 2023/24 or 2024/25, there will be a funding gap of over £1bn by 2024/25 just to keep services at their 2019/20 level of quality and access.

2.16. This scenario means that medium term financial planning beyond 2022/23 is incredibly difficult and does not support sustainable financial management nor service planning. The recent financial settlement provides the Council with confirmation of the funding that will be available in the next financial year, but due to the potential one off nature of this funding and no visibility or understanding of the changes that will come through the Review of Relative Needs and Resources and the impact of COVID-19 on the nation's economy, developing a reasonable estimate of the Council's financial envelope for the latter two years of the MTFP is challenging.

2.17. 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 12 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, 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.

2.18. 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, 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.

2.19. 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 2023/24 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 a 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 a significant 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. Recent Budget Reports have highlighted that the Framework for Change Programme has 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 deliver financial sustainability.

3.5. The Framework for Change Programme 2020 is built on three workstreams / pillars, namely Public Sector Reform, Growth and Strategic Investment.

Public Sector Reform

Council of 2023

3.6. 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.

3.7. 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.

3.8. Specifically, this project has four workstreams, the detail of which was originally provided in the 2020/21 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

3.9. 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 2021/22 budget included additional contributions to these areas of around £12m which reflects an ever-increasing demand. Significant increases in these budgets are also proposed for 2022/23.

3.10. 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 provides value for money, 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.

3.11. 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.

3.12. 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.

3.13. This will be done through:

- Safely and sustainably managing and reducing demand for Council services where it is appropriate to do so.
- 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.

3.14. 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

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

3.15. During the Framework for Change Programme the Growth and Strategic Investment pillars have been developed and have now moved on to the delivery stage.

3.16. The Programme is being delivered within a set of themes which include:

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

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

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

- The Asset Management Strategy and Asset 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 2022/23 – 2024/25

4.1 As discussed previously within the report, 2022/23 is the first year of the Council's new financial strategy period. Council, on 18 November 2021, approved an updated Medium-Term Financial Plan (MTFP) for the period 2022/23 – 2024/25, including the assumptions made.

4.2 As part of this budget setting cycle, each key element of the MTFP has been reviewed, namely: -
- Initial key MTFP assumptions including non-recurring savings.
- Other MTFP changes.
- The implications of the Provisional Local Government Finance Settlement for 2022/23; and,
- Growth Items.

4.3 In addition, there is still the ongoing impact of COVID-19 on the Council's budget for 2022/23. The impact of COVID-19 on some areas of the Council's budget are therefore considered separately in section 8.

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

Initial Key MTFP Updated Assumptions

4.5 Within this MTFP, there are a number of initial key assumptions that will impact upon the funding gap facing the Council in the period 2022/23 to 2024/25 as well as a number of other budget changes. These are set out as follows:

Housing Benefit / Council Tax Admin Subsidy

4.6 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 will continue in future years with an estimated reduction of **£0.050m** a year.

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

4.7 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. This includes £2.000m for provider fee increases within Adult Social Care.

Levy Increases

4.8 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. A provision has been included for the potential costs of increases in these levies in each of the three years (**£0.700m per year**). Sefton has received notification of provisional figures for 2022/23 in December 2021 and these can be contained within the estimate for 2022/23.

Non-Recurring Items

4.9 Significant Treasury Management savings were built into the budget for 2016/17 following the review of policy – however, the annual value of this saving reduces at **£0.200m** each year going forward.

2020 Local Government Pension Scheme Valuation

4.10 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 was £6.840m across the three years, with **£0.600m** relating to 2022/23.

4.11 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 only.

Crosby Lakeside Adventure Centre

4.12 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 saved £0.110m in 2021/22 and will save a further **£0.100m** in 2022/23.

Council Tax / Business Rates Income

4.13 The 2021/22 Budget Report outlined the impact on the 2021/22 budget of expected reductions in Council Tax and Business Rates, both during 2020/21 and 2021/22. 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 (£3.600m for Council Tax and £3.000m for Business Rates), assuming no additional government support would be made available to offset these losses. 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.

Initial MTFP Position 2022/23 to 2024/25

4.14 Based upon the revisions relating to MTFP assumptions it was initially estimated that the funding shortfall between 2022/23 and 2024/25 would be **£26.600m**, before any consideration of general government funding, existing service pressures and any other additional COVID-19 pressures. In addition, it is before any Council Tax decisions are made and any additional service delivery options are considered. A detailed analysis is shown below:

	2022/23	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**
Government Funding:			
- Housing Benefit / Council Tax Admin Subsidy	0.050	0.050	0.050
	0.050	**0.050**	**0.050**
Key MTFP updated assumptions:			
- Provision for Pay Inflation	3.250	3.250	3.250
- Provision for Pension Increases	0.600	0.600	0.600
- Provision for Inflation on Contracts	0.100	0.100	0.100
- Assumed increase in Care Provider costs re. Adult Social Care	2.000	2.000	2.000

- Levy increases	0.700	0.700	0.700
	6.650	**6.650**	**6.650**
Non-Recurring Items	**0.200**	**0.200**	**0.200**
Budget Changes:			
- 2020 Local Government Pension Scheme Valuation	-0.600	0.000	0.000
- Prepayment of Pension Contributions	-1.300	1.300	0.000
- Crosby Lakeside	-0.100	0.000	0.000
	-2.000	**1.300**	**0.000**
Revised MTFP Funding Gap	**4.900**	**8.200**	**6.900**
Council Tax / Business Rates – Potential Loss of Income	**6.600**	**0.000**	**0.000**
Initial MTFP Funding Gap – excluding Council Tax	**11.500**	**8.200**	**6.900**
Total Initial MTFP Funding Gap			**26.600**

<u>Other MTFP Changes 2022/23 – 2024/25</u>

<u>Council Tax Base – additional properties</u>

4.15 The Council Tax Base is set by Council in January each year. It reflects changes, and forecast changes, in the number of properties and the value of exemptions and discounts. For forecasting purposes, it has been assumed that there will be growth in the Tax Base for additional properties that would generate **£0.700m** in 2022/23 and **£0.500m** in each of 2023/24 and 2024/25.

<u>Business Rates Losses</u>

4.16 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, at the time of the Budget Report there were significant numbers of appeals in 2020/21 due to restrictions being in place. It was estimated that based on the 2020/21 position that £3.000m of the Council's income would be at risk as businesses no longer exist or cannot afford to pay business rates.

4.17 However, central government have announced that appeals relating to the implications of COVID-19 won't be allowed under amended regulations. Therefore, it is forecast that the income now at risk is only £1.600m. Therefore, the estimate of income at risk has been reduced by **£1.400m**. It is currently assumed that this will be a permanent reduction in income for the period of the three-year Budget Plan, although this will continue to be reviewed.

<u>Council Tax losses</u>

4.18 The Council Tax Base is set by Council in January each year. Due to the impact of COVID-19 on the number of Council Tax Reduction Scheme (CTRS) claimants, the reduced collection rate and the slowdown in housing growth, there was been a significant reduction in the Base for 2021/22. This reduced the Council Tax Requirement by approximately £3.600m.

4.19 It is currently assumed that this reduced income will unwind across the three-year Budget Plan period as the number of CTRS cases reduces and collection rates increase to levels experienced before the pandemic. Therefore, the Council Tax Base is forecast to result in increased income (excluding housing growth) of **£1.600m** in 2022/23 and **£1.000m** in each of 2023/24 and 2024/25.

Framework for Change 2020 – Demand Management Savings

4.20 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. The Demand Management Programme is described in paragraphs 3.10 to 3.15.

4.21 From the initial work of the Adult Social Care workstream, savings of £3.300m were identified in 2020/21, which were built into the Base Budget for 2021/22. The continuing work of the Adult Social Care workstream has identified further savings of **£3.800m**, which partly relates to the full year impact of previously implemented savings, as well as new savings that have been identified. The currently identified savings include reassessments and reviews for all service types, including joint funded care, supported living arrangements and the development of single-handed care. These savings are considered to be permanent at this stage, although will be phased in across two years, but will continue to be reviewed as part of the Demand Management Project.

Pay Award 2021/22

4.22 When the 2021/22 Budget was set, the Spending Review 2020 had announced that there would be a pay freeze for the majority of areas in the public sector, including local government with only staff paid less than £24,000 receiving a pay award of at least £250. The Council's provision for pay inflation was therefore reduced accordingly. However, the pay award offered to local government staff is currently 1.75% but has yet to be finalised. At this stage it is considered prudent to increase the provision back to the level previously included in the 2021/22 MTFP, pending finalisation of the pay award; this will add **£2.650m** to the budget in 2022/23.

Pay Award Provision

4.23 It is now considered that the provision for pay awards included in the original MTFP forecasts can be reduced for 2023/24 and 2024/25 given the level of forecast inflation and previous pay awards. This reduces the provision by **£0.650m** in those two years of the Budget Plan.

National Insurance Contributions Increase

4.24 In September 2021, the Government announced the introduction of a new Health and Social Care Levy of 1.25%, based on National Insurance Contributions, for both employees and employers. They announced that this funding would be ringfenced for health and social care. This will be introduced from April 2022 as an increase in National Insurance Contributions before being separated out as a new distinct Levy from April 2023. The cost of this for Sefton as an employer is anticipated to be in the region of **£1.250m**. The Government also announced that for the public sector, including local authorities, the impact would be neutral as funding would be provided. Therefore, the additional resources provided within the Local Government Finance Settlement for 2022/23 are to fund this increased cost, although no exemplification has been made to detail what additional funding has been provided for this additional spending pressure.

Net Council Tax / Business Rates Surplus

4.25 The current forecast for the surplus that has been generated in 2021/22 is a net figure of **£2.892m.** Given this is a one-off surplus that will be credited to the Council's budget in 2022/23, this amount will be added to General Balances to ensure they are appropriate for an authority of Sefton's size and risk profile. This also enables the annual contribution, currently included in the base budget, to be taken from the budget to generate a permanent saving for the Council. This is discussed further in the next section.

Contribution to General Fund Balances

4.26 The 2020/21 Budget Report highlighted that Council had maintained a relatively stable level of General Fund Balances in previous years, equating to 3.5% of the Council's net revenue budget. However, the CIPFA resilience index had identified that Sefton had a level of General Fund Balances that placed it at a high level of risk in terms of financial stress. From the CIPFA analysis it was suggested that a minimum reserves level of 5.0% would be appropriate for the Council, taking into account normal and local risks. It was therefore considered prudent to increase balances so that they equated to 5.0% of the net revenue budget by 2022/23 – a strategy to increase reserves by £1.500m per year was therefore put in place.

4.27 The 2021/22 Robustness Report highlighted that there was a higher level of risk due to the uncertainties around the pandemic and its impact on the Council's financial position. Therefore, a revised position of 7% was proposed. However, given some of these risks have now reduced, and some of the financial implications have been built into the updated MTFP, a revised position of 6.5% is now considered prudent. This equates to about £15.6m. A range of £1.0m is advised around this figure so General Fund balances between £14.6m and £16.6m would be considered prudent.

4.28 The Council's balances at the end of 2020/21 were £11.278m which is £2.794m more than forecast due an underspend in 2020/21. At the end of 2021/22, balances are forecast to be £12.778m including the budgeted increase of £1.500m. Paragraph 4.25 explains that the net Council Tax / Business Rates surplus declared for 2022/23 of £2.892m will also be added to General Balances. This would therefore increase balances to £15.670m during 2022/23. General Balances will be in line with the level required to mitigate the risks that a Council of Sefton's size faces. Therefore, the planned contribution to balances of **£1.500m** in 2022/23 and future years would no longer be required and can be taken from the budget.

Contribution to School Closure Reserve

4.29 The 2020/21 base budget included 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 have resulted in the reserve standing at £1.500m. However, it was estimated that a maximum of £1.000m was considered prudent at that time so £0.500m was utilised to temporarily support the one-off budget pressures resulting from COVID-19.

4.30 The 2022/23 MTFP includes the contribution of £0.750m to the reserve. This will result in the reserve standing at £1.750m at the end of 2022/23. This is considered prudent given the risks the Council might face relating to potential deficits. Therefore, the planned contribution to balances of **£0.750m** in 2023/24 would no longer be required and can be taken from the budget.

Income from the Strand Shopping Centre

4.31 The 2021/22 Budget Report highlighted that since the purchase of the Strand, surplus income of over £1.000m had been raised which has been used to support the Council's budget, and indeed the shopping centre had made a positive financial return each year. However, due to the significant impact of COVID-19 on retail businesses it was expected that there would be a reduction in income in 2021/22 as businesses close and others experience difficult trading conditions. The forecast was that losses of £1.700m would be experienced in 2021/22, and this was the figure included in the Base Budget for 2021/22. However, it was highlighted that this could be the subject of change depending on economic conditions, the timing of any further restrictions as a result of the pandemic and the resulting circumstances for individual tenants. At this stage, this is still the current forecast for 2021/22.

4.32 The current business case forecasts that this income loss will reduce by **£1.200m** in 2022/23 but will increase again by **£0.300m** in 2023/24. As would be expected these figures will be the subject of change and updates will be provided to Cabinet when required.

Sandway Homes Dividend – Phase One

4.33 The current Business Case for Sandway Homes forecasts that there will be a surplus of £1.350m once Phase One of its development programme has been completed. This was reported to Cabinet in October 2021. Therefore, a dividend of **£1.350m** will be paid to the Council on completion of Phase One, expected to be received in 2024/25. In addition, the report noted that the peak debt of the company was forecast to be £8.3m at the end of 2021/22 but this would reduce to £3.7m by the end of 2022/23.

Glass Recycling Saving

4.34 The budget approved for 2020/21 included additional investment on a number of initiatives relating to the Cleansing Service. An element of this investment was to have been funded from the net savings that would be achieved by the introduction of a separate glass recycling collection. As there are potential legislative changes relating to recycling, this proposal has yet to be progressed. It is therefore considered prudent to take the net saving from the budget pending clarity on any legislative changes; this will add **£0.240m** to the budget.

Framework for Change 2020 – Council of 2023 Savings

4.35 The Council had identified savings of **£0.890m** which could be achieved through new ways of working. This included 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.

4.36 These savings were built into the 2021/22 Base Budget to offset the temporary costs relating to the pandemic. The savings can now be built into the 2022/23 budget to support the Council's ongoing position.

Revised MTFP Position 2022/23 to 2024/25

4.37 Based upon the revisions relating to updated MTFP assumptions it is now estimated that the funding shortfall between 2022/23 and 2024/25 will be **£13.550m**, before any Council Tax decisions are made, any funding changes and any additional service delivery options are considered. A detailed analysis is shown below:

	2022/23	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**
Initial MTFP Funding Gap – excluding Council Tax	**11.500**	**8.200**	**6.900**
Other MTFP Changes:			
- Council Tax Base – additional properties	-0.700	-0.500	-0.500
- Business Rates Losses	-1.400	0.000	0.000
- Council Tax losses	-1.600	-1.000	-1.000
- Demand Management Savings	-2.800	-1.000	0.000
- Pay Award 2021/22	2.650	0.000	0.000
- Pay Award Provision	0.000	-0.650	-0.650
- National Insurance Contributions Increase	1.250	0.000	0.000
- Contribution to General Fund Balances	-1.500	0.000	0.000
- Contribution to School Closure Reserve	0.000	-0.750	0.000
- Income from the Strand Shopping Centre	-1.200	0.300	0.000
- Sandway Homes Dividend – Phase One	0.000	0.000	-1.350
- Glass Recycling saving	0.240	0.000	0.000
- Council of 2023 Savings	-0.890	0.000	0.000
	-5.950	**-3.600**	**-3.500**
Revised MTFP Funding Gap	**5.550**	**4.600**	**3.400**
Total Revised MTFP Funding Gap			**13.550**

5. Local Government Finance Settlement 2022/23 and Spending Review 2021

5.1 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.

5.2 The Provisional Local Government Finance Settlement for 2022/23 was announced on 16 December 2021. This confirmed, and provided more detail on, a number of funding announcements made in the 2021 Comprehensive Spending Review announced on 27 October 2021, and these are detailed from paragraph 5.4.

5.3 As previously mentioned, this Settlement is for one year only, and as such makes it difficult to forecast the funding the Council is likely to receive in 2023/24 to 2024/25. However, it should be noted that the overall funding for local government included in the Comprehensive Spending Review, excluding the new burdens funding for Adult Social Care Reform and potential increases in Council Tax income, showed no increase in 2023/24 and 2024/25. Therefore, all of the additional funding for local government overall for the CSR period has been provided in 2022/23.

Social Care Grant

5.4 In 2021/22, the Government provided £1,710m of Social Care Grant funding which was distributed using the Adult Social Care Relative Needs Formula. Sefton's allocation was £11.820m. As outlined in paragraph 2.6, it was unknown whether this represented short-term additional funding. The Settlement has confirmed that this funding would continue to be paid in 2022/23.

5.5 The Settlement also announced that an additional £636.4m of Social Care Grant would be paid to local authorities in 2022/23. Of this, the Government proposes to distribute £556.4m using the Adult Social Care Relative Needs Formula, with the remaining £80m 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 **£4.265m**.

5.6 In addition, local authorities have been given the power raise Council Tax by a further 1% 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 £300m nationally as part of the £1bn funding announced as being available for social care. This is discussed further in section 10.

Market Sustainability and Fair Cost of Care Fund

5.7 As part of the Government's plan for health and social care, published on 7 September 2021, it was announced that £5.4bn would be made available over the Spending Review period for Adult Social Care.

5.8 The 2021 Spending Review confirmed that £3.6bn of this will be routed through local authorities in order to *"implement the charging reforms and support local authorities to better sustain their local care market by moving towards a fairer cost for care".* This is made up of £0.2bn in 2022/23, £1.4bn in 2023/24 and £2.0bn in 2024/25.

5.9 The Settlement announced that the initial £162m in 2022/23 would be made available to local authorities as an allocation of a new Market Sustainability and Fair Cost of Care Fund. The funding should be used to conduct a cost of care exercise, engage with local providers to better understand reform on the local market and strengthen capacity for greater market oversight and improved market management as well as increasing fee rates according to local circumstances. Sefton's allocation is **£1.029m**. It is proposed to allocate this funding directly for these purposes in line with Government guidelines (see paragraph 6.6).

5.10 The Government has announced that this funding will increase to £600m in 2023/24 and 2024/25 and that they will work closely with local government to determine appropriate grant conditions, national guidance and distribution mechanisms for funding allocations. Allocations of this further government funding will be based on councils evidencing that work has been undertaken, including market engagement, and submissions are required to be sent to Central Government by September 2022. This funding is therefore being treated as one-off until such time as additional information is made available.

5.11 Based on the figures announced in the Spending Review, this would therefore mean that an additional £800m would be available in 2023/24 to support the charging reforms announced in September 2021, which would increase to £1.4bn in 2024/25. No additional information has been given on the allocations of these for local authorities, however some commentators have suggested that the funding may not be sufficient to fund the potential increases in costs.

Services Grant

5.12 The Settlement provided details of a new Services Grant, worth £822m nationally, is to be paid in 2022/23 to local authorities and which is being distributed based on the 2013/14 shares of the Settlement Funding Assessment. The grant includes funding to cover the cost of increased employer national insurance contributions resulting from the health and social care levy which are ongoing. Sefton's allocation of the grant is **£4.477m**.

5.13 The Government have announced that this is effectively a one-off grant to individual local authorities, although the overall funding will still be available to local government per the Spending Review. However, the grant will be excluded from any transitional protection arrangements in future years arising as a result of the Review of Relative Needs and Resources so the Council may receive a lower level of funding. It is proposed to treat this grant as ongoing and consider the impact of the Review of Relative Needs and Resources separately (see paragraph 5.18).

Public Health Grant

5.14 The Spending Review announced that funding for Public Health through the Public Health Grant would be maintained in real terms. However, no additional information has been received as to what additional funding will be made available. It is proposed that any increase in the 2022/23 allocation should continue to be allocated to the Public Health budget.

Lower Tier Services Grant

5.15 The Government announced a new unringfenced Lower Tier Services Grant in 2021/22, which allocated £111m to local authorities with responsibility for lower tier services (for example, homelessness, planning, recycling and refuse collection, and leisure services). Sefton's allocation was £0.430m. This grant has continued into 2022/23 with Sefton's allocation increasing slightly by **£0.023m**.

New Homes Bonus

5.16 The Government will continue to make payments of New Homes Bonus in 2022/23. However, as expected, the main grant allocations for 2021/22 will not continue and the allocations relating to 2018/19 have now dropped out. However, Sefton achieved the Government's threshold for main payments for 2022/23 and will receive £0.735m relating to that year. However, this payment is for one year only.

In addition, the 2019/20 legacy payment will also drop out from 2023/24. It is currently estimated that only a small amount of New Homes Bonus will be received in 2023/24 and 2024/25 relating to affordable housing. Therefore, Sefton's allocation will increase by **£0.639m** in 2022/23 but is estimated to reduce by **£0.750m** in 2023/24. However, should the scheme not change, and Sefton again achieve the baseline target, then additional New Homes Bonus may be received.

<u>Settlement Funding Assessment / Business Rates Baseline</u>

5.17 To support businesses in the near-term, the government has decided to freeze the business rates multiplier in 2022/23. Local authorities will be fully compensated for this decision through additional Section 31 Grant. It is estimated that this will result in **£3.253m** of additional funding in 2022/23. In addition, the government announced that the Revenue Support Grant and Improved Better Care Fund will increase by in line with inflation which will result in an increase in the Council's Top-Up Grant of **£0.836m** in 2022/23.

<u>Review of Relative Needs and Resources</u>

5.18 As mentioned earlier, the Government is committed to reviewing the allocation of funding available to local authorities through the Review of Relative Needs and Resources. When announcing the Provisional Settlement, the Secretary of State for Levelling Up, Housing and Communities stated that "*Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources*" and " *Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes*". Therefore, it is assumed that the Review of Relative Needs and Resources will be completed in time to be used in allocating funding for 2023/24 onwards.

5.19 The Government also said that as part of the consultation they would look at options to support local authorities through transitional protection. Previously this has meant that any changes in funding have been phased in across a number of years. However, as mentioned above, the Services Grant won't be included in any transitional protection arrangements which potentially gives the opportunity to phase in changes more quickly.

5.20 As previously mentioned, Sefton's relative decline in population is likely to have a negative impact on the Council's overall funding position as part of the Review of Relative Needs and Resources. However, the exact impact is unknown as it will depend on the transitional arrangements put in place to protect those local authorities who would see a reduction in funding (the Local Government Association has argued that no council should see a reduction in its funding as a result of the changes). As mentioned in paragraph 5.3, the Spending Review indicates that, apart from funding for Adult Social Care Reform and additional income from Council Tax, there won't be any increases in funding for local government in 2023/24 or 2024/25. Without additional funding for local government some local authorities will therefore see reductions in their funding.

5.21 However, the outcome is even more complex due to the differential impact austerity had on individual local authorities. Those local authorities that had received the most Government funding received the largest reductions in spending power whilst those who could raise more Council Tax income were less impacted. Therefore, the link between need and funding diverged, particularly in the early years of austerity, with the total spending power of two similar authorities now very different. This should also have an impact on the outcome of the Review and the funding being allocated. When announcing that 75% Business Rates Retention would no longer be proceeding, the Secretary of State for Levelling Up, Housing and Communities stated "*You have a situation where those local authorities that have the most resilient council tax base and also the highest portion of business rates are, relatively speaking, in a stronger position…*".

5.22 At this stage it is considered prudent to assume that the Review will result in a reduction in funding for Sefton, and that this will be **£1.000m** in each of 2023/24 and 2024/25. This assumption will be revised in light of any information received as part of the consultation, with Members being informed immediately, although the exact details may not be known until the Settlement is announced for 2023/24 in December 2022.

Business Rates Retention:

5.23 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.

5.24 As part of the Review of Relative Needs and Resources, the Business Rates baseline will be re-assessed and changed. Therefore, the benefit of these gains is expected to be lost going forward. As stated above, it is assumed that this will take place in 2023/24. It is estimated that this reassessment could see the Council's funding reduce by **£1.000m** in 2023/24, although any implications might be complicated by the outcome of the Review.

5.25 Also, as mentioned previously, nationally the proportion of Business Rates retained by local authorities will now remain at 50%. It is expected that pilot authorities will also move to 50% retention so a lower proportion (49%) of any future growth will be retained by the Council.

Other Implications for 2023/24 and 2024/25

5.26 As mentioned earlier, overall funding for local government included in the Comprehensive Spending Review, excluding the new burdens funding for Adult Social Care Reform and potential increases in Council Tax income, showed no increase in 2023/24 and 2024/25. Additional funding for Adult Social Care Reform is expected to be matched by additional costs relating to the new burdens introduced.

5.27 The Spending Review assumed that the Council Tax limits would be 2% for the Core increase with an additional 1% for the Adult Social Care Precept in each of 2023/24 and 2024/25. The Institute for Fiscal Studies have commented that without additional grant funding in those years the Government may need to revisit this to maintain current service levels, particularly within social care.

5.28 It should be noted that a 1% Adult Social Care Precept would generate about £1.400m, which is less than the amount currently assumed in 2023/24 and 2024/25 for provider fee increases. In addition, the Budget Plan for 2023/24 and 2024/25 assumes no further increase in Children's Social Care costs. Any further pressure in these areas would therefore require the Council to make corresponding savings in those years or additional funding being made available.

5.29 A summary of the estimated grant changes is shown below:

	2022/23	2023/24	2024/25
	£'m	£'m	£'m
Government Funding:			
- Social Care Grant	-4.265	0.000	0.000
- Market Sustainability and Fair Cost of Care Fund	-1.029	1.029	0.000
- Services Grant	-4.477	0.000	0.000
- Public Health Grant	0.000	0.000	0.000
- Lower Tier Services Grant	-0.023	0.000	0.000
- New Homes Bonus	-0.639	0.750	0.000
- Settlement Funding Assessment / Business Rates Baseline	-4.089	0.000	0.000
- Review of Relative Needs and Resources	0.000	1.000	1.000
- Business Rates Retention	0.000	1.000	0.000
	-14.522	**3.779**	**1.000**

6. MTFP Changes – Growth Items

6.1 The following additional growth items are proposed to offset ongoing budget pressures as well as investment in key Council services:

Children's Social Care

6.2 At the Cabinet meeting in September 2021, Members received a report that outlined the proposed additions to the workforce that would be required within Children's Social Care service - this investment would help meet the requirements of the service both as a result of increased demand but also to support service development.

6.3 Members will be aware that when demand pressure occurs in year that needs to be met, the Council has always reported this as it occurs in its budget monitoring reports and then included the future years' impact in its Medium-Term Financial Plan that in turn is reflected in the final budget report that is considered by full Council.

6.4 The £2m of staffing that is required to address the issues in Children's Social Care will follow the same route as this resource is required to meet the increased demand in the service during this year. As a result, the Medium-Term Financial Plan approved by Council in 2021 and now updated includes the impact of this in future years together with further growth in respect of placements and packages, bringing the future year budget requirement to **£4.300m**. At this stage the Budget Plan doesn't assume any further increase in the cost of the Service beyond 2022/23, indeed following the Spending Review there is no additional funding for this either. However, this service is under significant pressures and the Council will need to closely monitor expenditure, assess risks and take mitigating actions to address any risk to the service. This would be reported through the normal processes.

Adult Social Care

6.5 The CSR announced that the National Living Wage will increase by 6.6% from April 2022. In addition, there will be the increases in National Insurance contributions to fund Health and Social Care, announced by the Government in September. It is expected that the announcements will create significant additional burdens on Adult Social Care Providers in 2022/23. It is therefore considered prudent to include an additional **£3.500m** in 2022/23 for the potential impact of increased fees from providers. As previously reported, there is no additional funding for either Adults or Children's Social care beyond 2022/23, with government providing only the ability for councils to raise Council Tax by 1% in each year to support Adult Social Care. As such within this Medium Term Financial Plan, it is currently assumed that the existing MTFP provision will be sufficient in 2023/24 and 2024/25 to support Adult Social Care providers, as this reflects in full the central government funding that is being made available plus an additional contribution from the Council, this providing for an affordability envelope of £2m in each year. This will need to be evaluated in light of future increases in the National Living Wage, and a strategy for potential increased costs may need to be considered. In the absence of further government funding is increases are beyond this £2.000m sum then corresponding savings will need to be made by the Council.

Adult Social Care Reform - Market Sustainability and Fair Cost of Care

6.6 As mentioned in paragraph 5.9, the Council is due to receive **£1.029m** in 2022/23 to fund the initial costs of the Adult Social Care Reform programme. In accordance with the guidance received from the Government, the funding will be used to conduct a cost of care exercise, engage with local providers to better understand reform on the local market and strengthen capacity for greater market oversight and improved market management as well as increasing fee rates according to local circumstances. Of this, £0.400m will be made available to fund the work required relating to the local market with the remainder allocated to support increasing fee rates according to local circumstances. It should be noted that this additional funding is currently being treated as one-off, although increased funding should be available in 2023/24 and 2024/25 when the Council meets the associated grant conditions.

Procurement Team

6.7 Procurement activity is a key element of securing quality, social value and value for money through the Council's activities, as well as supporting innovative, sustainable, efficient services achieving better outcomes for local people. Given the updated National Procurement Policy Statement and the scale and scope of work within the Council's Framework for Change there is a need to invest in and strengthen procurement resources to deliver approved activity. It is therefore proposed to restructure the Procurement Team to meet this need, at an additional cost of **£0.300m** from 2022/23.

Education Excellence Team

6.8 The Head of Education Excellence in conjunction with the Director of Children's Services and Education considered the working structure and reporting lines within the current Education Excellence area. This also considered how other areas within the Authority work on Education and Early Years related matters. All services apart from SEND, which has already undertaken a review of provision, will be impacted by the creation and realignment of posts, creating a more efficient department to support and challenge schools and carry out its statutory functions.

6.9 A report outlining the changes was recently approved by the Cabinet Member for Education and the Cabinet Member for Regulatory, Compliance and Corporate Services. Whilst the overall structure was approved it was also agreed that only posts that could be funded from the 2021/22 budget would be appointed to. The appointment to the other posts within the structure would only be made if it was agreed as part of the 2022/23 budget. The costs of these posts total **£0.250m**.

ICT Contract Inflation

6.10 The cost of the Council's major ICT systems has increased significantly in recent years and cannot be contained within existing budgets. This unavoidable cost will increase the budget by **£0.180m** in 2022/23.

Replacement Play Equipment / Neighbourhood Officers / Ward Budgets.

6.11 The Council is committed to ensuring that Sefton remains an attractive place to live, work and visit. It will therefore invest **£0.200m** each year in replacing play equipment across the Borough, provide funding for two new Neighbourhood Officer posts, as well as allocating a total of **£0.300m** each year to individual wards for projects that will enhance the environment within those wards, including funding for an additional Neighbourhood Officer post to coordinate the projects.

Coastal Gateway Visitor Action Plan

6.12 Following the implementation of the Action Plan in 2020 and 2021, the Council will invest a further **£0.300m** in continuing with the activities within the plan in future years, as well as increasing staffing resources within the Green Sefton service to enhance the service provided along Sefton's coast.

Growth Funded from One-off New Homes Bonus

6.13 As mentioned in paragraph 5.16, the Council will receive additional New Homes Bonus in 2022/23 only. Due to the unexpected and one-off nature of this receipt, this will be reserved, with the use to be determined during the year. The approval of any use of this funding will be in accordance with the Council's Financial Procedure Rules.

Revenue One-off funding for 2022/23

6.14 As a result of the grant allocations from government being focussed on 2022/23, with no further grant being received in 2023/24 or 2024/25, a one-off revenue sum of **£2.229m** will be reserved in 2022/23, with its use to be determined due to the volatility that exists within both the Council's existing budget and any new or emerging pressures across a number of revenue and capital budgets. As part of this allocation, consideration will be given to the development and evaluation of a business case to determine if the Council has any existing properties that could be used to support homeless families. The approval of any use of this funding will be in accordance with Financial Procedure Rules.

7. Summary MTFP Position 2022/23 to 2024/25 including Growth

7.1 Based upon the potential budget options, additions and funding it is now estimated that the funding shortfall between 2022/23 and 2024/25 will be **£13.197m**, before any Council Tax decisions are made, and any further service delivery options are considered. A detailed analysis is shown below:

	2022/23	2023/24	2024/25
	£'m	£'m	£'m
Revised MTFP Funding Gap – excluding Council Tax	**5.550**	**4.600**	**3.400**
Local Government Finance Settlement	**-14.522**	**3.779**	**1.000**
Proposed Growth Items:			
- Children's Social Care	4.300	0.000	0.000
- Adult Social Care	3.500	0.000	0.000
- ASC Reform	1.029	-1.029	0.000
- Procurement Team	0.300	0.000	0.000
- Education Excellence Team	0.250	0.000	0.000
- ICT Contract Inflation	0.180	0.000	0.000
- Replacement Play Equipment	0.200	0.000	0.000
- Ward Budgets	0.300	0.000	0.000
- Neighbourhood Officers	0.060	0.000	0.000
- Coast Gateway Visitor Action Plan	0.300	0.000	0.000
- Growth Funded from One-Off New Homes Bonus	0.639	-0.639	0.000
- Revenue One-off funding for 2022/23	2.229	-2.229	0.000
	13.287	**-3.897**	**0.000**
Revised MTFP Funding Gap	**4.315**	**4.482**	**4.400**
Total MTFP Funding Gap			**13.197**

8. Ongoing Financial Impact of COVID-19

1.1 There are also other uncertainties around the impact of COVID-19 on the Council's financial position going forward:

Sales, Fees and Charges Income

1.2 There has been a significant impact on income from sales, fees and charges for a range of services during both 2020/21 and 2021/22. Whilst some income streams have recovered as restrictions have eased over time, others are expected to remain impacted whilst measures are still in place for social distancing, etc. It is currently forecast that this could result in a loss of income of between **£1.000m and £1.500m** during 2022/23, reducing further in the following years, before potentially returning to normal from 2025/26. This forecast will be reviewed as there is more experience of the impact on reopened facilities. It is assumed that as these losses are considered temporary, they will be funded from one-off resources received for COVID related pressures.

Waste Disposal Costs

1.3 The costs incurred by the Merseyside Recycling and Waste Authority have increased in 2021/22 to reflect the increased cost of disposing of household waste due to the impact of people working, holidaying and shopping from home. These additional costs have been funded from one-off resources received for COVID related pressures. It is currently forecast that the ongoing impact of these behaviours could result in an additional cost of up to **£0.400m** during 2022/23, reducing in the following years, returning to normal from 2025/26. This forecast will be reviewed as there is more experience of the impact on costs. It is assumed that as these costs are considered temporary, they will also be funded from one-off resources received for COVID related pressures.

9. Additional Funding

Council Tax Increases

9.1 The Comprehensive Spending Review assumed a 2% Core Referendum Principle for illustrative purposes for all years of the CSR period. The Government, as part of the Local Government Finance Settlement, has confirmed the Council Tax Referendum Principle of 2% for 2022/23. A 1.99% increase for Sefton (to ensure the Council wouldn't breach the principle) would generate **£2.872m** in 2022/23.

9.2 As mentioned in paragraph 4.1, local authorities have been given the power to raise Council Tax by a further 1% on top of the core principle as an Adult Social Care Precept. This would generate an additional **£1.443m** in 2022/23. The Comprehensive Spending Review assumed that an Adult Social Care Precept of 1%, for illustrative purposes, would be allowed for the last two years of the CSR period.

9.3 Decisions on the Core Referendum Principle and the Adult Social Care Precept for 2023/24 and 2024/25 will be announced as part of the Local Government Finance Settlement in the December prior to the financial year.

9.4 A decision on the level of Council Tax is made by Budget Council each year. The 2021/22 Band C Council Tax is £1,524.02. 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.

10. Budget 2022/23 – Specific Issues

Charges Relating to External / Levying Bodies

10.1 The Council is required to pay charges relating to levies from external bodies. The expected payments for 2022/23 and their impact on Sefton's budget compared to 2021/22 is shown in the table below: -

Levying Body	**2021/22**	**2022/23**	**Change**
	£	**£**	**£**
Liverpool City Region (LCR) Combined Authority - Transport Levy	18,828,000	TBC	TBC
Waste Disposal Authority	15,510,816	TBC	TBC
Environment Agency	159,789	TBC	TBC
Inshore Fisheries & Conservation Authority	69,418	TBC	TBC
Port Health Authority	94,500	TBC	TBC
	34,662,523	**TBC**	**TBC**

The approved 2022/23 figures will be reported at Budget Council.

Proposed Overall Council Tax increase

10.2 The proposed total increase in the Sefton Council Tax for 2022/23 will be reported to Budget Council following any recommendation from Cabinet.

Fees and Charges

10.3 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.

11. Dedicated Schools Grants (DSG) 2022/23

11.1 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).

11.2 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 2022/23 the funding includes £780m of growth funding specifically allocated to High Needs, leaving £1.6bn for mainstream schools. The new three-year Government Spending Review was announced in October 2021, and funding for Schools and High Needs over the next three-year period includes an extra £1.6bn in 2022/23; with further increases of £1.5bn in 2023/24 and £1.5bn in 2024/25. By 2024/25, the Government states that Schools and High Needs funding, will have risen by approximately £4.7bn overall over the three-year period. In addition, further Covid catch-up and Recovery Premium Grant has been promised over the next year, to help schools provide extra support for pupils, as part of a recovery plan after Covid. These are separate funding streams and not part of the Schools Formula.

11.3 The Education and Skills Funding Agency (ESFA) announced in December 2021, that the extra £1.6bn for Schools and High Needs in 2022/23, would be given as a separate grant, until subsumed into the Schools and High Needs Formula from 2023/24.

11.4 The split of this extra grant was formally announced in December 2021, with Schools, nationally, set to receive an extra £1.275bn of the funding; and High Needs to receive the balance of £0.325bn. However, some of this additional funding to schools is being given to fund the additional costs that will be incurred through the planned rise in Employers National Insurance Contributions from April 2022, as part of measures to provide additional funding to Social Care and the NHS through the Health and Social Care Levy, estimated at £0.4bn of the funding. Schools will also be expected to absorb any pay awards agreed in the year, from their funding allocations, with no further funding being made available for these.

11.5 Locally, the additional funding will add a further £1.478m to Sefton's High Needs Block in 2022/23; and an indicative additional increase of about £5.489m to Sefton Schools. This latter amount is to be made available on an individual school basis only in the Spring 2022, by the ESFA.

11.6 Excluding the extra growth announced in the Spending Review above, the normal 2022/23 Dedicated Schools Grant settlement was announced on 16 December 2021. The 2022/23 National DSG allocation for Sefton of £244.870m is set out in the table below.

Notional DSG Allocations 2022/23	DSG Funding 2022/23 (£m)	Comments
Schools Block	£186.935m	NB Includes an allocation for Pupil Growth funding in 2022/23 of £1.289m and includes funding for Schools Business Rates of £1.253m, which from 2022/23, will not be paid to schools directly, but paid by the ESFA to local authorities on their behalf.
Early Years Block	£17.063m	NB: Allocation based on Jan 2021 headcount census numbers, which were lower than usual due to Covid. See paragraphs below.
High Needs Block	£39.459m	NB: This funding excludes any top slicing by the ESFA for funding towards Non-Maintained Special schools and Colleges of Further Education, which are paid directly by the ESFA (£0.738m)
Central Schools Services Block	£1.413m	
Total allocated DSG funding 2022/23	£244.870m	16 Dec 2021 – DfE Allocation Schedule

Schools Block

11.7 Sefton Schools Block will see a net increase in funding of £7.15m compared to 2021/22. This figure excludes the indicative additional funding to schools of £5.489m identified above and being given as a separate grant for 2022/23. It includes:

- Minimum headroom growth of +2.76% funding per pupil through the new Formula Funding (£4.899m).
- Additional Net funding of (£2.149m) after taking account of changes in pupil numbers between October 2020 and October 2021 (i.e. a net increase +363.5 year on year).
- Uplifted calculation of funding for pupil class size growth based on changes to actual pupil numbers year on year (£0.102m).

11.8 The above funding increases will ensure that the minimum funding levels per pupil in 2022/23 will increase to £4,265 per Primary pupil (£4,180 in 2021/22) and £5,525 per Secondary pupil (£5,415 in 2021/22).

11.9 The DfE are committed to implementing a National Schools Funding Formula model (NFF) but making it mandatory has now been delayed until at least 2024/25. Sefton have already adopted the National Funding Formula methodology from this year's budget setting process.

11.10 The Minimum Funding Guarantee (MFG) has been set at +2% in 2022/23 which means that every school will see a minimum 2% increase per pupil compared to 2021/22 per pupil values.

School Deficit Balances

11.11 Sefton maintained primary schools have a forecast overall surplus balance at the end of 2021/22 of £10.0m.

11.12 The six maintained secondary schools are forecast to have a combined 2021/22 deficit balance of £0.5m. Six schools and one Pupil Referral Unit are reporting deficit balances and are operating under a Licensed Deficit Budget in 2021/22, which is expected to continue into 2022/23. 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

11.13 Early Years funding was announced in December 2021 and will be £17.063m in 2022/23. However, this is expected to increase significantly during the Summer 2022, when the DfE adjust the Early Years funding to Local Authorities, based on any increase/decrease in the census headcount as at January 2022, compared against the much reduced numbers of children in attendance as at January 2021, due to the Covid pandemic.

11.14 As part of the Spending Review announced in October 2021, Early Years funding nationally, is to increase by £160m in 2022/23; £180m in 2023/24 and by a further £170m in 2024/25. As a result, in 2022/23, there is to be an increase to the National Hourly rates paid to Local Authorities of £0.21p per hour for Two-year-old provision and by £0.17p per hour for Three-Four-year-old entitlement. Sefton's funded hourly rate is to be increased to £4.61 per hour (£4.44 in 2021/22) for Three-Four-year-old Childcare; and for Two-year-old Childcare, an increase to £5.59 per hour (£5.38 in 2021/22). The base hourly rates payable to Sefton Providers will similarly be increased to £4.33p per hour (£4.16 per hour in 2021/22) for Three-Four-year-old entitlement and to £5.29 per hour (£5.08 per hour in 2021/22) for Two-year-old provision.

High Needs Block

11.15 Sefton's High Needs funding allocation for 2022/23 has increased by £3.495m (+9.92% increase) compared to 2021/22. In addition, a further £1.478m is being allocated out of the extra funding announced in the October Spending Review although some of this funding is earmarked for the Governments increases to National Insurance contributions from April 2022 and also changes to utility costs in 2022/23.

11.16 Sefton's High Needs budget is facing severe cost pressure and is currently forecast to overspend by £3m in 2021/22, which would take the deficit balance on High Needs to around £10m by the end of 2021/22. 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 three years are therefore playing "catch up" with the increased levels of expenditure. Significantly, local authorities were never funded sufficiently to meet their expanded duties towards 19-25-year olds.

11.17 Further budget pressures are expected over the next two years, as parts of the High Needs review, in respect of additional demand for SEND support, and the anticipated deficit against the High Needs Block is anticipated to rise to in excess of £13.8m by 31 March 2025. The significance of the growing deficit was reported to Cabinet in December 2021 and Council in January 2022 and the following table provides an overview of the financial position shared with Members.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Aug 2021/22 £'000	F'Cast 2022/23 £'000	F'Cast 2023/24 £'000	F'Cast 2024/25 £'000
HN Expenditure								
Increase in spend compared to previous year / forecast demand	***1,390***	***1,485***	***3,002***	***2,101***	***2,317***	***3,429***	***2,400***	***2,400***
Total HN Expenditure	**28,541**	**30,026**	**33,028**	**35,129**	**37,446**	**40,875**	**43,275**	**45,675**
NET ESFA Funding - (9% uplift assumed from 2022/23)	26,062	26,448	27,278	31,290	34,577	37,857	41,264	44,978
Special/AP Teachers Pay & Pensions funding	0	0	0	0	649	649	649	649
Schools Block Funding Contribution	0	450	795	824	430	0	0	0
Early Years Block Contribution	0	200	200	200	0	0	0	0
Other grants e. 6th Form Grant (integrated with HN funding from 2020/21)	650	650	264	0	0	0	0	0
Total HN Funding Allocation	**26,712**	**27,748**	**28,537**	**32,314**	**35,656**	**38,506**	**41,913**	**45,627**
In-Year (Surplus) / Deficit	1,829	2,278	4,491	2,815	1,790	2,369	1,362	48
Transfer of Early Years Balances			-2,700					
Balance Bfwd from Previous Year	-464	1,365	3,643	5,434	8,249	10,039	12,408	13,770
Accumulative (Surplus) / Deficit	1,365	3,643	5,434	8,249	10,039	12,408	13,770	13,818

11.18 The current funding model within the Council used to support High Needs placements has not been reviewed and placement costs have not been uplifted since 2013/14. The financial forecasts for the five in-house Special Schools indicate that they will all face significant financial hardship over the next three years unless the existing funding values are increased. This would lead to Special Schools having to make significant financial savings in spending commitments reducing the number of places they could provide for children with SEND, which in turn would mean more reliance in expensive Out of Borough placements for children, increasing the cost pressures facing the High Needs Block further.

11.19 Through the current High Needs review, a key feature was to develop a new funding model for High Needs placements that was transparent, right-sized Special School budgets and provided stability for in-house placements. This new funding model has been produced that addresses the key actions required within the review however the cost of implementing the new funding model would increase the projected High Needs Block deficit by up to £2m per annum. Council approved the uplift in funding to Special Schools and other SEND Resource Bases in Sefton and noted the impact that this will have on the forecast deficit on the High Needs Block in the medium term.

11.20 Council was asked to approve the uplift to High Needs placement costs in the High Needs report provided to Council in January 2022 by the Director of Children's Social Care and Education. The report also recommended that Council agree that subsequent quarterly reports be provided to Cabinet and Council as required on the latest position with regards to the high needs budget and the development of further provision within the Borough and that work should commence on developing a financial reserve to mitigate against the risk exposure currently faced and that this be agreed with the Council's External Auditor.

11.21 The Council have made representations to the DfE to be part of the Government's High Needs 'pressure valve' safety mechanism in 2022/23, whereby, over an agreed 3-5-year timescale, changes are put in place, to help balance the Council's High Needs services. These actions will then be measured and assessed on a regular basis and may be met with the release of additional funding, which may be used to offset the high level of accumulated deficit balances. Officers will be meeting with the DfE in the new year, as well as the Department for Levelling Up, Housing and Communities, to understand the strategic vision and the potential funding options for the deficit.

Central School Services Block

11.22 The Central School Services Block (CSSB) has funding of £1.413m in 2022/23 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.

11.23 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. An examination of these 'historic' costs is underway via a consultation with Schools over the ongoing support of the PDC and with the Council's Estates services with regards to the closed schools maintenance, in a bid to find some alternative funding mechanisms going forward, as this element of DSG funding gradually diminishes.

12. Other Government Grant Notifications and Other Funding 2022/23

12.1 The Government have announced grant notifications for 2022/23 in the areas identified below. In addition, the Council has received notification of additional funding for Children's Social Care. Should any further information be supplied on other grants, this will be included in a separate update to Cabinet / Council.

Independent Living Fund

12.2 The indicative allocation for the 2022/23 Independent Living Fund grant has yet to be announced. The 2021/22 allocation was £2.107m. It is proposed that the 2022/23 allocation will continue to be allocated to appropriate Adult Social Care budgets.

Homelessness Prevention Grant

12.3 The government announced a new grant to support homelessness in 2021/22, the Homelessness Prevention Grant. This combined two grants previously received, the Flexible Homelessness Support Grant and the Homelessness Prevention Grant. The allocation for 2021/22 was initially £0.536m, although an additional one-off top-up of £0.112m was provided later in the year to support local authorities to help vulnerable households with rent arrears to reduce the risk of them being evicted and becoming homeless. The 2022/23 allocation has increased to £0.558m. The increase is to meet the new burdens following the expansion of priority need to those who are homeless as a result of domestic abuse, which came into force in July 2021 following the Domestic Abuse Act 2021. It is proposed that the 2022/23 allocation will continue to be allocated to appropriate Homelessness budgets.

Strengthening Families, Protecting Children Programme - Leeds Family Valued Model

12.4 Sefton have successfully had a bid confirmed by the DfE, to enter the DfE evaluated Strengthening Families, Protecting Children Programme for the implementation of the Leeds Family Valued Model, which is a strengthening families approach. This programme, which begins in the Spring 2022, lasts for two years and has funding attached. The DfE have confirmed that £2.900m has been approved initially with an additional allocation of £0.130m potentially being made available. The money is ringfenced to ensure development and embedding of this approach and is based upon invest to save activity. A Supplementary Estimate of up to £3.030m is therefore proposed across 2021/22 to 2023/24, fully funded from the allocation received.

13. Summary of Budget Proposals for 2022/23

13.1 As a result of the information contained within this report the bridging of the 2022/23 funding gap is shown as follows:

	2022/23
	£'m
Revised MTFP Funding Gap	**5.550**
Local Government Finance Settlement	**-14.522**
Potential Additions to the Budget	**13.287**
Revised MTFP Funding Gap – excluding Council Tax	**4.315**
Council Tax – Core increase (TBC%)	**TBC**
Adult Social Care Precept (TBC%)	**TBC**

A summary of the budget for 2022/23 is shown at Appendix B (note that for illustrative purposes this assumes a Council Tax increase of 2.99% in 2022/23).

14. Precepts

a. Police & Crime Commissioner and Fire & Rescue Authority Precepts

The Police and Crime Commissioner is due to set a budget / precept for 2022/23 on 22 February 2022. The Fire and Rescue Authority is due to set its budget / precept for 2022/23 on 24 February 2022.

	Precept			Band C		
	2021/22	2022/23	Change	2021/22	2022/23	Change
	£	£	£	£	£	%
Police	18,775,435	TBC	TBC	201.75	TBC	TBC
Fire	6,783,212	TBC	TBC	72.89	TBC	TBC

The approved 2022/23 figures will be reported at Budget Council.

b. LCR Mayoral Precept

To be able to deliver the Mayor's key priorities in 2022/23 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 21 January 2022.

	Precept			Band C		
	2021/22	2022/23	Change	2021/22	2022/23	Change
	£	£	£	£	£	%
Mayoral	1,571,720	TBC	TBC	16.89	16.89	0.00

The approved 2022/23 figures will be reported at Budget Council.

c. Parishes

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

	Precept			Band C		
	2021/22	2022/23	Change	2021/22	2022/23	Change
	£	£	£	£	£	%
Aintree Village	153,200	TBC	TBC	67.48	TBC	TBC
Formby	89,747	TBC	TBC	8.85	TBC	TBC
Hightown	18,000	TBC	TBC	18.71	TBC	TBC
Ince Blundell	2,400	TBC	TBC	12.85	TBC	TBC
Little Altcar	3,259	TBC	TBC	8.85	TBC	TBC
Lydiate	174,302	TBC	TBC	76.37	TBC	TBC
Maghull	714,243	TBC	TBC	94.79	TBC	TBC
Melling	36,050	TBC	TBC	31.13	TBC	TBC
Sefton	10,000	TBC	TBC	35.91	TBC	TBC
Thornton	7,000	TBC	TBC	8.10	TBC	TBC
	1,208,201	**TBC**				

The approved 2022/23 figures will be reported at Budget Council.

15. Recommended Council Tax for 2021/22

Council are recommended to approve the Budget for 2022/23, as set out in the main report.

The recommended overall Band C Council Tax to be raised for 2022/23 (excluding Parish Precepts) is as follows: -

	2021/22	2022/23	Increase
	£	£	%
Sefton	1,524.02	TBC	TBC
Police & Crime Commissioner	201.75	TBC	TBC
Fire & Rescue Authority	72.89	TBC	TBC
Mayoral Precept	16.89	TBC	TBC
	1,815.55	**TBC**	**TBC**

The recommended Council Tax for 2022/23 will be reported to Budget Council

16. Capital Programme 2022/23 to 2024/25

16.1 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.

Supplementary Capital Estimate 2021/22

16.2 Council is recommended to approve a supplementary capital estimate of £29,378 for 2021/22 funded from earmarked reserves, for the Burials and Cremations service to purchase an automatic coffin loader for Southport Crematorium. An automatic loader allows the loading of a coffin into the cremator in a safe and controlled manner, minimising the need for manual handling, and ensuring operator safety at all times. The loader will be provided by the Council's maintenance supplier of the cremators and all associated equipment for this process at Southport crematorium. The market is a niche market, therefore, for value for money and quality this route has been chosen for the purchase. By providing a better process of cremation will ensure the cremation service sustainability for the future.

17. Procurement of External Audit Services through the Public Sector Audit Appointments body

17.1 Since the abolition of the Audit Commission, Sefton has procured its external audit services by opting into the national arrangements undertaken by Public Sector Audit Appointments Ltd (PSAA). The most recent procurement awarded Sefton's contract for 2018/19 to 2022/23 to Ernst & Young LLP. It should be noted that the vast majority of local authorities procure external audit services through the PSAA.

17.2 The Local Government Association is encouraging all local authorities to use the national arrangements for the next five-year procurement that is due to start from 2023/24. They have circulated the following supporting information to local authorities to help inform their decision:

Information from the LGA for those charged with governance

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11th March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially. councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this *could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.*

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- *A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.*
- *The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.*
- *Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.*
- *Procuring for yourself provides no obvious benefits:*
    - *The service being procured is defined by statute and by accounting and auditing codes*
    - *Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).*
    - *Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.*
- *PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:*
    - *PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.*
    - *PSAA has commissioned high quality research to understand the nature of the audit market.*
    - *It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year.*

17.3 Officers have considered the views of the Local Government Association and agree that continuing with procuring external audit services through the national arrangements would be in the best interests of the Council. Audit and Governance Committee on 15 December 2021 considered the LGA advice and noted the intention to seek approval from Budget Council on 3 March 2022 to procure external audit services through the Public Sector Audit Appointments body, without further comment. Council is therefore asked to approve that the Council procure external audit services through the Public Sector Audit Appointments body for the period 2023/24 to 2027/28.

Agenda Item 9

List of Appendices

A Individual School Budgets 2022/23

B Draft Council Budget Summary 2022/23

C Capital Programme 2022/23 - 2024/25

SCHOOLS FORMULA FUNDING ALLOCATIONS 2022/23	
AFTER AGREED DE-DELEGATION OF FUNDING FROM MAINTAINED SCHOOLS	
FIGURES EXCLUDE ANY SUPPLEMENTARY GRANT ARISING FROM THE AUTUMN STATEMENT	**BUDGET**
WHICH WILL BE ANNOUNCED IN THE SPRING ON AN INDIVIDUAL SCHOOL BASIS AND PAID AS.	**2022/23**
A SEPARATE GRANT TO SCHOOLS IN 2022/23.	**£**
TOTAL FORMULA FUNDING LEVELS - SCHOOLS 2022/23	**184,570,413**
PRIMARY PHASE - MAINTAINED SCHOOLS	
Ainsdale St John's Church of England Primary School	956,907
Aintree Davenhill Primary School	1,799,296
All Saints Catholic Primary School	1,787,250
Bedford Primary School	1,898,290
Birkdale Primary School	1,730,254
Bishop David Sheppard Church of England Primary School	873,675
Christ Church Church of England Controlled Primary School	1,948,442
English Martyrs' Catholic Primary School	1,793,766
Farnborough Road Infant School	1,476,556
Farnborough Road Junior School	1,998,246
Forefield Community Infant and Nursery School	1,157,976
Forefield Junior School	1,510,802
Freshfield Primary School	976,682
Great Crosby Catholic Primary School	3,113,552
Green Park Primary School	892,128
Hatton Hill Primary School	1,763,050
Holy Family Catholic Primary School	898,739
Holy Rosary Catholic Primary School	1,790,756
Holy Spirit Catholic Primary School	962,722
Hudson Primary School	1,028,330
Kings Meadow Primary School and Early Years Education Centre	913,183
Lander Road Primary School	1,084,958
Larkfield Primary School	1,213,048
Linacre Primary School	928,434
Linaker Primary School	1,895,718
Lydiate Primary School	981,018
Marshside Primary School	792,933
Melling Primary School	944,312
Netherton Moss Primary School	1,090,604
Northway Primary School	1,324,432
Norwood Primary School	2,492,307
Our Lady of Compassion Catholic Primary School	909,064
Our Lady of Lourdes Catholic Primary School	1,927,324
Our Lady of Walsingham Catholic Primary School	993,711
Our Lady Queen of Peace Catholic Primary School	755,745
Our Lady Star of the Sea Catholic Primary School	1,044,976
Redgate Community Primary School	988,937
Rimrose Hope CofE Primary School	1,436,679
Springwell Park Community Primary School	1,970,425
St Benedict's Catholic Primary School	964,075
St Edmund's and St Thomas' Catholic Primary School	1,321,538
St Elizabeth's Catholic Primary School	1,920,550
St George's Catholic Primary School	873,037
St Gregory's Catholic Primary School	896,735
St Jerome's Catholic Primary School	831,351
St John Bosco Catholic Primary School	902,157
St John's Church of England Primary School	903,965
St John's Church of England Primary School	870,346

St Luke's Church of England Primary School	1,616,668
St Luke's Halsall Church of England Primary School	902,895
St Mary's Catholic Primary School	514,571
St Monica's Catholic Primary School	1,908,973
St Nicholas Church of England Primary School	879,322
St Oswald's Church of England Primary School	999,498
St Patrick's Catholic Primary School	1,477,025
St Philip's Church of England Controlled Primary School	973,881
St Philip's Church of England Primary School	905,284
St Robert Bellarmine Catholic Primary School	941,873
St Teresa's Catholic Infant and Nursery School	180,515
St William of York Catholic Primary School	1,019,087
Summerhill Primary School	895,758
The Grange Primary School	1,344,637
Thomas Gray Primary School	1,092,145
Trinity St Peter's CofE Primary School	876,453
Ursuline Catholic Primary School	1,744,136
Valewood Primary School	900,732
Waterloo Primary School	1,811,057
Woodlands Primary School	1,273,320
	85,786,812
SECONDARY PHASE - MAINTAINED SCHOOLS	
Christ The King Catholic High School and Sixth Form Centre	4,460,282
Holy Family Catholic High School	4,777,633
Maricourt Catholic High School	5,749,672
Meols Cop High School	5,393,493
Sacred Heart Catholic College	5,558,249
Savio Salesian College	2,936,480
	28,875,809
PRIMARY ACADEMY SCHOOLS	
Churchtown Primary School	3,111,561
Holy Trinity Church of England Primary School, Southport	1,028,215
Kew Woods Primary School	1,744,643
Litherland Moss Primary School	1,064,768
Shoreside Primary School	796,291
St Andrews Church of England Primary School, Maghull	1,184,138
St Thomas Church of England Primary School, Lydiate	899,915
	9,829,530
SECONDARY ACADEMY/FREE SCHOOLS	
Birkdale High School	4,831,934
Chesterfield High School	7,322,621
Deyes High School	6,375,850
Formby High School	5,060,900
Greenbank High School	5,685,225
Hillside High School	4,531,873
King's Leadership Academy Hawthornes	3,468,040
Litherland High School	4,251,568
Maghull High School	5,434,557
Range High School	5,127,200
St Michael's Church of England High School	3,747,691
Stanley High School	4,240,803
	60,078,262

Appendix B

Council Budget Summary 2022/2023

Line Ref	Service	Base Budget 2021/2022 £	Draft Base Budget 2022/2023 £
1	**Strategic Management**	**4,002,350**	**4,002,350**
2	**Adult Social Care**	**97,950,850**	**101,680,150**
3	**Children's Social Care**	**47,481,750**	**51,781,750**
4	**Communities**	**17,420,250**	**17,680,250**
5	**Corporate Resources**	**3,959,000**	**4,439,000**
6	**Economic Growth and Housing**	**6,463,600**	**6,463,600**
7	**Education Excellence**	**10,548,200**	**10,798,200**
8	**Health and Wellbeing**	**18,714,850**	**18,714,850**
9	**Highways and Public Protection**	**11,152,050**	**11,152,050**
10	**Operational In-House Services**	**13,740,600**	**14,480,600**
11	**Other Services**	**2,923,000**	**2,923,000**
12	**Net Cost of Services**	**234,356,500**	**244,115,800**
13	Debt Repayment / Net Interest	8,676,800	8,605,800
14	**Sub total**	**243,033,300**	**252,721,600**
15	Levies	34,568,000	35,268,000
16	Application of Provisions / Reserves / Corporate Expenditure	-23,655,500	-13,277,250
17	Capitalisation	-1,566,000	-1,566,000
18	Corporate / One-Off Savings	-833,550	-1,862,550
19	Inflationary Items to be Allocated	576,768	8,178,570
20	Corporate Savings to be allocated to Services	0	0
21	**Total**	**252,123,018**	**279,462,370**
22	Specific Government Grants	-22,006,100	-22,006,100
23	Non-Specific Government Grants	-40,851,579	-49,723,529
24	**Total**	**189,265,339**	**207,732,741**

Council Budget Summary 2022/2023

Line Ref	Service	Base Budget 2021/2022 £	Draft Base Budget 2022/2023 £
25	Increase in General Balances	1,500,000	2,892,000
26	**Total Budget Requirement**	**190,765,339**	**210,624,741**
27	Add Parish Precepts	1,208,201	1,208,201
28	**Total Net Expenditure**	**191,973,540**	**211,832,942**
	SUMMARY OF GENERAL BALANCES		
29	Balances Brought Forward	11,277,822	12,777,822
30	Increase in Balances	1,500,000	2,892,000
31	**Balances Carried Forward**	**12,777,822**	**15,669,822**

FINANCING OF SEFTON'S BUDGET REQUIREMENT

Total Budget Requirement		190,765,339	210,624,741
Less:	Revenue Support Grant	0	0
	Top-Up Grant	-21,314,934	-22,150,523
	Business Rates Receipts	-29,105,184	-38,148,773
	Collection Fund Deficit / Surplus (-) - Council Tax	1,483,474	-1,699,036
Sefton Requirement from Council Tax		141,828,695	148,626,409
Band D Council Tax		1,714.52	1,765.78
Illustrative Council Tax Increase		**4.99%**	**2.99%**

Note that the Sefton Requirement from Council Tax and quoted Band D Council Tax in 2022/2023 is based on a Council Tax increase that is for illustrative purposes only.

Appendix C

Capital Programme 2022/23 to 2024/25

Capital Project	Budget		
	2022/23	2023/24	2024/25
	£	£	£
Adult Social Care			
Core DFG Programme	120,144	-	-
Wider Social Care Programme	4,305,902	1,623,750	860,000
Communities			
Dunes Splashworld – Essential Repairs	292,704	81,470	-
Libraries - Centres of Excellence	279,301	-	-
S106 - Ford – Stanton Avenue One Way System	-	9,000	-
Corporate Resources			
Council Wide Essential Maintenance	1,749,000	-	-
STCC Essential Maintenance	50,000	-	-
Victoria Baths Essential Works	80,000	-	-
Green Homes Grant Local Delivery Scheme	860,000	-	-
Sustainable Warmth Scheme	2,890,000	-	-
Public Sector Reform	345,972	-	-
Economic Growth & Housing			
The Strand Business Plan	590,000	135,000	-
Cambridge Road Centre Development	72,171	-	-
Southport Market Redevelopment	20,039	-	-
Marine Lake Events Centre	2,470,894	-	-
Enterprise Arcade	244,000	-	-
Strategic Acquisitions - Ainsdale	891,859	-	-
Housing Investment	36,180	-	-
Southport Pier Project	124,117	-	-
Education Excellence			
Schools Programme	4,304,359	2,146,957	7,055
Planned Maintenance	187,043	-	-
Special Educational Needs & Disabilities	455,142	-	-
Highways and Public Protection			
Street Lighting	3,742,035	3,605,580	3,854,630
Transport Growth Programme	1,263,000	-	-
Highways Capitalisation	1,616,000	1,616,000	1,616,000
Operational In-House Services			
Formby Strategic Flood Risk Management Prog.	43,851	-	-
Merseyside Groundwater Study	20,000	-	-
Regional Coastal Monitoring Prog. 2022-2026	1,016,932	1,058,000	1,306,000

Agenda Item 9

Appendix C

	2022/23 £	2023/24 £	2024/25 £
The Pool & Nile Watercourses	74,711	-	-
Crosby Flood & Coastal Scheme	763,261	-	-
Hall Road & Alt Training Bank - Rock Armour	45,775	-	-
Surface Water Management Plan	59,245	-	-
Parks Schemes	264,535	-	-
Tree Planting Programme	146,552	19,769	19,769
Golf Driving Range Developments	280,280	-	-
Ainsdale Coastal Gateway	320,488	-	-
Green Sefton – Plant & Machinery	131,152	-	-
Vehicle Replacement Programme	1,736,762	113,000	-
Wheeled Bins	765,000	-	-
TOTAL PROGRAMME	**32,658,406**	**10,408,526**	**7,663,454**

Grant Allocations 2022/23 to 2024/25 (indicative amounts)

Capital Grant	Block Allocation		
	2022/23 £	2023/24 £	2024/25 £
Adult Social Care			
Disable Facilities Grant [1]	4,823,370	4,823,370	4,823,370
Education Excellence			
Devolved Formula Capital (direct school allocation) [1]	361,878	361,878	361,878
Schools Condition Allocation [1]	2,202,043	2,202,043	2,202,043
Highways and Public Protection			
Highways Maintenance [2]	5,515,000	5,515,000	5,515,000
Traffic Signal Maintenance [3]	250,000	-	-
TOTAL	**13,152,291**	**12,902,291**	**12,902,291**

1. *Indicative grant allocations based on amounts received in 2021/22. The actual allocations for 2022/23 and future years are still to be confirmed by the Department for Levelling Up, Housing and Communities and Department for Education. A further report will be brought to Council to approve the actual block allocations once these have been confirmed.*
2. *Provisional estimates of grant allocation for 2022/23. The actual allocations for 2022/23 and the future years Highways Maintenance programme are still to be agreed by the Liverpool City Region Combined Authority. A further report will be brought to Council to approve the actual block allocations once this has been confirmed.*
3. *New funding allocation from Department for Transport.*