

Public Document Pack

Sefton Council

MEETING: CABINET

DATE: Thursday 13th February, 2025

TIME: 10.00 a.m.

VENUE: Assembly Hall, Town Hall, Bootle *

DECISION MAKER: **CABINET**

Councillor Atkinson (Chair)
Councillor Dowd
Councillor Doyle
Councillor Harvey
Councillor Howard
Councillor Lappin
Councillor Moncur
Councillor Roscoe
Councillor Veidman

COMMITTEE OFFICER: Debbie Campbell
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The Cabinet is responsible for making what are known as Key Decisions, which will be notified on the Forward Plan. Items marked with an * on the agenda involve Key Decisions

A key decision, as defined in the Council's Constitution, is: -

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

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

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

* Please note the venue for the meeting.

A G E N D A

Items marked with an * involve key decisions

<u>Item No.</u>	<u>Subject/Author(s)</u>	<u>Wards Affected</u>	
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 Minutes of the meeting held on 6 February 2025 to follow		
* 4	Asset Management Strategy and Asset Disposal Policy 2025/26 Report of the Executive Director – Regeneration, Economy and Assets	All Wards	(Pages 5 - 34)
* 5	Prudential Indicators 2025/26 Report of the Executive Director – Corporate Services and Commercial	All Wards	(Pages 35 - 50)

* 6	<p>Treasury Management Policy and Strategy 2025/26</p> <p>Report of the Executive Director – Corporate Services and Commercial</p>	All Wards	(Pages 51 - 90)
* 7	<p>Capital Strategy 2025/26</p> <p>Report of the Executive Director – Corporate Services and Commercial</p>	All Wards	(Pages 91 - 114)
* 8	<p>Robustness of the 2025/26 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25</p> <p>Report of the Executive Director – Corporate Services and Commercial</p>	All Wards	(Pages 115 - 132)
* 9	<p>Revenue and Capital Budget Plan 2025/26 – 2027/28 and Council Tax 2025/26</p> <p>Report of the Executive Director – Corporate Services and Commercial</p>	All Wards	(Pages 133 - 178)

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Annual Review of Asset Management Strategy and Asset Disposal Policy

Date of meeting:	11 February 2025		
	13 February 2025		
	27 February 2025		
Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) (Budget Meeting)		
	Cabinet (Budget Meeting)		
	Council (Budget Meeting)		
Report of:	Executive Director Regeneration, Economy and Assets		
Portfolio:	Cabinet Member – Cabinet Member Regeneration, Economy and Skills		
Wards affected:	All Wards		
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 and 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.

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Recommendation(s):

Cabinet is asked to:

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

Council is recommended to:

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

1. The Rationale and Evidence for the Recommendations

Introduction

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

The Council has therefore developed an Asset Management Strategy and Asset Disposal Policy for guidance.

Content

The content of the Asset Management Strategy and 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.

The Asset Management Strategy was last presented as part of the budget reporting in 2024 and the Asset Disposal Policy was updated in September 2024 further to the Property and Building Services move from Corporate Resources service to Regeneration, Economy and Assets. 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:-

Asset Disposal Policy - Portfolio Breakdown by Value - Page 4

- Values updated.

The documents will continue to be updated annually (as a minimum) with material changes being represented further.

2. Financial Implications

To be assessed at programme and individual level.

3. Legal Implications

To be considered on case by case basis

4. Risk Implications

To be considered on case by case basis.

5 Staffing HR Implications

To be considered on case by case basis.

6 Conclusion

The Strategy and Policy 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 Asset Management Strategy and Asset Disposal Policy 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.

Alternative Options Considered and Rejected

None

Equality Implications: To be considered on a case by case basis.
Impact on Children and Young People: To be considered on a case by case basis.
Climate Emergency Implications: The recommendations in this report will have Neutral impact.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Services & Commercial (FD.7918/25) and the Chief Legal and Democratic Officer (LD.6018/25) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

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Implementation Date for the Decision : Following the Council decision.

Contact Officer:	Dominic Ellis
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Appendices:

The following appendices are attached to this report:

- Appendix 1 - Asset Management Strategy
- Appendix 2 - Asset Disposal Policy

Background Papers:

N/A

Asset Disposal Policy

Updated – 07/01/25

Next review due on 07/01/26

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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

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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;

- £287.365m - Other Land and Buildings
- £11.851m – Surplus Assets/Assets Held For Sale
- £27.560m – 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:

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- **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).

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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 Regeneration, Economy and Skills.
- 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: < £20,000 – Decision delegated to Executive Director Regeneration, Economy and Assets.
- Value: £20,001 to £500,000 – Decision made by Cabinet Member Regeneration, Economy and Skills
- 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 Regeneration, Economy and Assets. Leases over 20 years in length are delegated to the Cabinet Member Regeneration, Economy and Skills and the Executive Director Regeneration, Economy and Assets.
- If a Lease surrender notification is received on a Council Owned asset then this is to be dealt with as set out in the constitution. Lease surrenders with a remaining term of up to 20 years in length with associated rental not exceeding £20,000 in total over the remaining term are delegated to the Executive Director Regeneration, Economy and Assets. Lease surrenders with a remaining term in excess of 20 years in length with associated rental not exceeding £500,000 in total over the remaining term are delegated to the Cabinet Member Regeneration, Economy and Skills and the Executive Director Regeneration, Economy and Assets . Lease surrenders regardless of term with associated rental exceeding £500,001 over the remaining term is a decision by Cabinet.

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- 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 Regeneration, Economy and Skills.

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.

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Disposal Routes

Key development sites will generally be disposed of through a multi-stage disposal or in line 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 through 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 Council's 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. The Council disposes of its' freehold reversionary interests and/or chief rents following receipt of a letter or e-mail from a residential occupier, however in addition, the Council is also taking a proactive approach by writing out to all occupiers on a rolling programme 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.

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Asset Management Strategy

Updated – 07/01/25

Next review due on 07/01/26

Agenda Item 4

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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 Council's 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 Rules. 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 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 Transformation programme and its service planning. 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 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.

Where financially possible, the Council will look to allocate resource to a PPM regime in order to arrest further decline and premature failure in our retained assets. The aim should be to achieve a 70/30 split (planned/reactive) as opposed to current approach which is largely reactive.

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 its 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 its transformation programme and service planning.

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 as set out in the Corporate Plan.

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Report Title: Prudential Indicators 2025/26

Date of meeting:	11 February 2025		
	13 February 2025		
	27 February 2025		
Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)		
	Cabinet		
	Council		
Report of:	Executive Director of Corporate Services and Commercial		
Portfolio:	Corporate Services		
Wards affected:	All wards		
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 & Scrutiny Committee is requested 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 2025/26.

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Cabinet is recommended to:

- 1) Recommend to Council that the Prudential Indicators (as detailed in the report) are set as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- 2) Note that the relevant Prudential Indicators will be revised as required and that any changes will be reported to Cabinet and then to Council for approval;
- 3) Note that the estimates of capital expenditure may change as grant allocations are received; and
- 4) Recommend to Council that authority is delegated to the Executive Director of Corporate Services and Commercial in conjunction with the Cabinet Member – Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 6 of the report.

Council is recommended to:

- 1) Approve the Prudential Indicators (as detailed in the report) as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- 2) Note that relevant Prudential Indicators will be revised as required and that any changes will be brought to Cabinet and then to Council for approval;
- 3) Note that the estimates of capital expenditure may change as grant allocations are received; and
- 4) Delegate authority to the Executive Director of Corporate Services and Commercial in conjunction with the Cabinet Member – Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 6 of the report.

The Rationale and Evidence for the Recommendations

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.

1. Introduction

- 1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. It details a number of measures/limits/parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will ensure that the Council complies with the relevant legislation, is acting prudently and that its capital expenditure proposals are affordable.
- 1.2. CIPFA published its revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021, replacing the codes published in 2017. The Council has adopted CIPFA's 2021 Prudential Code for Capital Finance in Local Authorities when setting the Prudential Indicators for 2025/26 to 2027/28.
- 1.3. The Council is required to approve Prudential Indicators for the following items:

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- (i) Capital Expenditure (Section 2);
- (ii) Financing Costs/Net Revenue Stream (Section 3);
- (iii) Net Income from Commercial and Service Investments to Net Revenue Stream (Section 4)
- (iv) Capital Financing Requirement (Section 5);
- (v) External Debt (Section 6-9);
- (vi) Treasury Management Indicators (Section 10).

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

1.5. A new International Accounting Standard (IFRS 16) on leases has been adopted by the Code of Practice on Local Authority Accounting with effect from 1 April 2024. The new standard is anticipated to bring most operating leases onto the Council's balance sheet once fully implemented (subject to exceptions for short dated and low value leases). This will have an impact on the Capital Financing Requirement (CFR) in 2024/25, however, work to fully assess the impact will be dependent on confirmation of the Council's final capital outturn at the end of the financial year. The capital values used to prepare this report, the Council's Treasury Management Strategy report, and Capital Strategy for 2025/26 (also included on the agenda for this meeting) are therefore based on estimated amounts for the capitalisation of leases under the new accounting standard. The impact of IFRS 16 during 2025/26 will be assessed and Cabinet and Council will be informed of any material changes to the prudential indicators as part of regular Treasury Management reporting.

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 2023/24 is shown below and the estimated current and future years capital programme are recommended for approval:

Capital Expenditure					
	2023/24 £m Actual	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate
TOTAL	40.937	81.122	133.837	52.543	17.700

2.3. The estimated levels of expenditure above represent those elements approved by Council and which have been included within the Capital Programme. The Council may also receive additional block allocations of grant from central government for 2025/26 but these have not yet been confirmed. The grant allocations will be added to the capital programme following approval by Cabinet and Council along with the Sustainable Transport Settlement which has been confirmed by the Liverpool City Region Combined Authority. The estimated amounts to be received that have been included in the estimates of capital expenditure (above) are shown below for information:

- Disabled Facilities Grant - £5.985m
- Schools Basic Needs Allocation - £1.685m
- Schools Condition Allocation - £2.241m
- Devolved Formula Capital Grant

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- City Region Sustainable Transport Settlement - £8.466m.

- 2.4. The increase in capital expenditure during 2024/25 and 2025/26 shown in the table above represents additional allocations added due to: additional expenditure in relation to highways schemes; projects linked to the Council's Growth Programme; and the reprofiling of capital expenditure linked to Corporate Essential Maintenance. 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 and additional borrowing. 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. Southport is set to receive a total of £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.
- 2.6. The business cases for each of the projects were approved by the Department for Levelling Up, Housing and Communities (DLUHC) – for the £37.5m Town Deal funding – and by the Liverpool City Region Combined Authority who are providing an additional £20m towards the Marine Lake Events Centre development. Projects continue to be progressed with delivery of all projects currently anticipated by 2026/27.
- 2.7. The Council has also been awarded £20m of Capital Levelling Up Funding from DLUHC to fund the initial Phases 1 A-C of the Bootle Strand Repurposing Programme. The Levelling Up Fund has been included in the total estimates of capital expenditure shown above. Additional funding is being sought from the Liverpool City Region Combined Authority for Phase 1D of £18m together with additional enabling capital of £7m. On confirmation on the funding, Council approvals will be required for the associated supplementary estimates and the estimates of capital expenditure will then be updated and reported as part of regular budget updates to Cabinet.

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 2023/24 and estimates of the ratio for 2024/25 and future years are:

Financing Costs / Net Revenue Stream					
	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio	5.3%	6.1%	6.5%	6.7%	6.9%

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 may include projects and schemes that generate savings and income streams to the Council that support repayment schedules. Overall, however, the proportion of debt repayment costs is increasing relative to income and these increases have therefore been included in the Medium-Term Financial Plan meaning that the Council's financing requirement remains sustainable and affordable.

4. Prudential Indicator – Net Income from Commercial and Service Investments to Net Revenue Stream

4.1. This indicator measures the proportion of the authority's net revenue stream that is derived from non-treasury investments such as service investments (loans to subsidiaries) and commercial investments (investment properties). Commercial investments relate to legacy arrangements such as concessions at Southport seafront, parks and gardens; the freehold interest in the Strand Shopping Centre; rents linked to small retail units; industrial units; clubs; and car park income. The indicator is a measure of the exposure to loss of income should the net return from those investments fall short of the target set in the budget.

Net Income from Commercial and Service Investments to Net Revenue Stream					
	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio	1.2%	1.1%	1.1%	0.9%	0.9%

4.2. As can be seen from the ratios above this is a relatively low percentage of the Council's revenue stream indicating that the Council's budget is not overly reliant on commercial and service investment income. Variations to planned levels of income are also reflected in the Council's Medium-Term Financial Plan. Should a shortfall in investment income occur then the plan will be adjusted accordingly, and corresponding savings will need to be made to compensate for the loss of income.

5. Prudential Indicator – Capital Finance Requirement

5.1. 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.

5.2. Actual 2023/24 and estimated year-end Capital Financing Requirements for current and future years are set out in the table below:

Capital Financing Requirement					
	31/03/24 £m Actual	31/03/25 £m Estimate	31/03/26 £m Estimate	31/03/27 £m Estimate	31/03/28 £m Estimate
CFR	229.452	242.763	210.679	263.081	253.866

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5.3. The Authority has an increasing CFR over 2024/25 to 2026/27 due to proposed increases to the capital programme as outlined in paragraph 2.4. Increases to the CFR represent elements of the programme that will be financed by taking out new borrowing less any provisions for the statutory repayment of debt.

6. Prudential Indicator – Borrowing Limits

6.1. 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.

6.2. The Operational Boundary

6.2.1. 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.

6.2.2. 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, the PFI scheme and the transferred debt from the now defunct Merseyside Residuary Body.

Operational Boundary				
	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	198	203	216	206
Other Long-Term Liabilities	7	5	5	4
TOTAL	205	208	221	210

6.2.3. The Council is asked to approve these limits and to delegate authority to the Executive Director of Corporate Services and Commercial in conjunction with the Cabinet Member – 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.

6.3. The Authorised Limit

6.3.1. 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 2025/26 will be the statutory limit determined under section 3 (1).

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6.3.2. The Council is asked to delegate authority to the Executive Director of Corporate Services and Commercial in conjunction with the Cabinet Member – 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				
	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	223	228	241	231
Other Long-Term Liabilities	7	5	5	4
TOTAL	230	233	246	235

7. Prudential Indicator – Actual External Debt

7.1. The Prudential Code requires that in setting indicators for 2025/26, the Council reports its actual levels of external debt as at 31st March 2024. The Council's actual external debt at 31st March 2024 was:

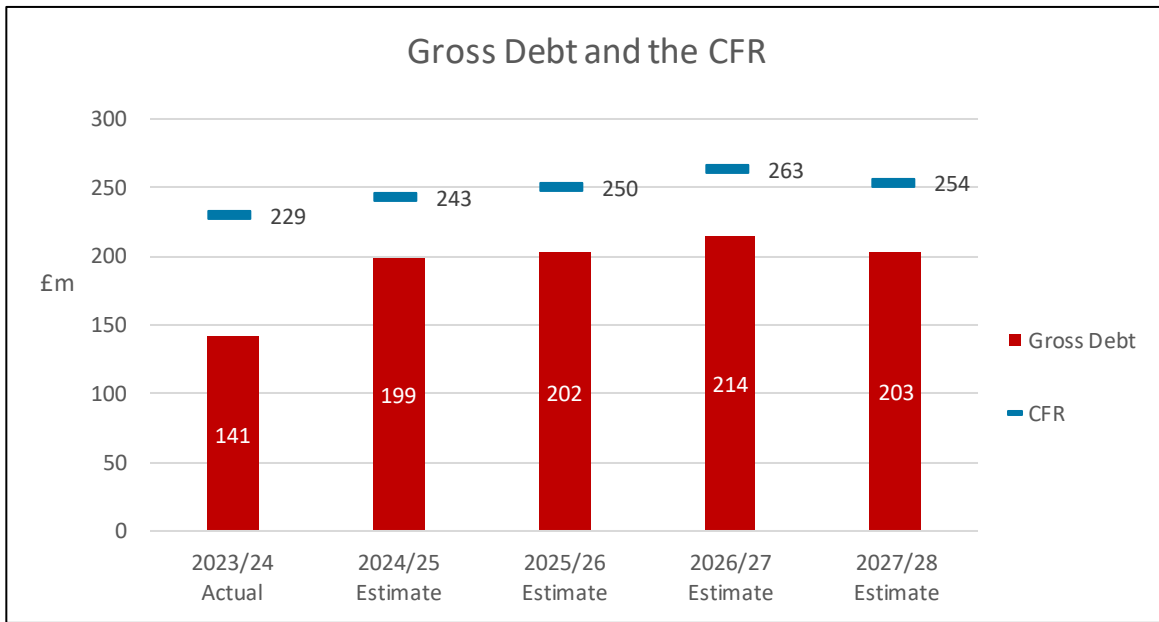
	31/03/2024 £m
Borrowing	136.778
Other Long-Term Liabilities	4.515
TOTAL	141.293

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

8.1. 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.

8.2. The chart below illustrates that the Council is not intending to borrow in advance of need, and that there is a reasonable level of “under borrowing”.

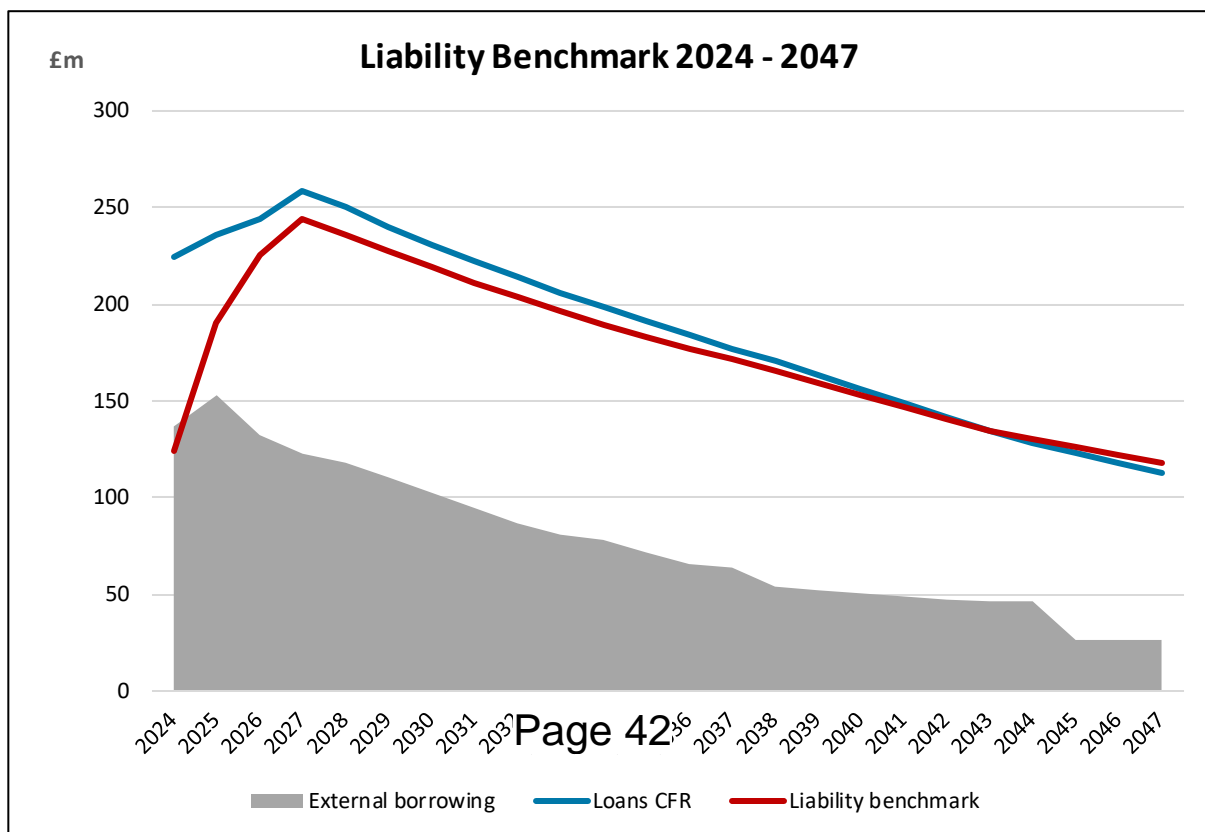
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8.3. The Council pursues a strategy of internal borrowing where the cheapest borrowing will be internal borrowing, which involves reducing cash balances and foregoing interest earned at the current historically low rates. This position can be reversed at any time by taking out loans with the PWLB and is undertaken to allow the Council to maintain its liquidity. The estimates of gross debt for 2024/25 and 2025/26 include borrowing undertaken to partially reverse the internal borrowing position. The Council’s borrowing strategy is fully outlined in the Treasury Management Strategy 2025/26 which can be found on the agenda for this meeting.

9. Liability Benchmark

9.1. The chart below shows the liability benchmark that has been calculated for 2024 and future years. The following explanations are provided to assist with understanding the chart:



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- i. Grey shaded area – represents the Council’s current fixed term loans for 2024 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.

9.2. 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 2025 to 2047. This borrowing requirement arises as historic loans are paid off and the level of forecast reserves and balances diminishes over time.

9.3. It is anticipated that the above borrowing requirement is manageable within the current borrowing strategy. As mentioned in paragraph 8.2 (above), the Council is under-borrowed and may reverse this position at any time by borrowing from the PWLB. Replacement loans from the PWLB may, despite recent rises in borrowing rates, 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.

10. Prudential Indicators – Treasury Management

10.1. 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, an upper limit for long term investments made by the Council, and an Interest Rate Risk Indicator:

10.2. Debt Maturity Profile

10.2.1. 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	<u>Upper</u>	<u>Lower</u>
	<u>Limit</u>	<u>Limit</u>
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 15 years	40%	0%
15 years and above	50%	20%

10.2.2. 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.

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10.2.3. It should be noted that the Council's upper limits for debt maturity have increased for periods up to 10 years when compared to previous year's limits in response to rises in interest rates on new borrowing. This is to allow the Council to take a greater proportion of short term loans and avoid being locked into higher rates on fixed rate debt for the long term. Forecasts of the impact of changing interest rates on maturing loans remain within the limits for Interest Rate Risk as set out in paragraph 10.4.2. and this position will be kept under review with advice from the Council's Treasury Management Advisor.

10.3. Long Term Treasury Management Investments

10.3.1. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

10.3.2. The limits shown below are the maximum amounts that can be invested beyond the end of the financial year. The authority cannot therefore hold more than £15m due to mature after 31 March 2026, no more than £10m due to mature after 31 March 2027 and £5m after 31 March 2028. A limit is also set for investments with no fixed maturity date such as strategic pooled funds and the property fund.

Long Term Treasury Management Investments					
	2024/25	2025/26	2026/27	2027/28	No Fixed Maturity
Upper Limit	£15m	£15m	£10m	£5m	£15m

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

10.4. Interest Rate Risk Indicator

10.4.1. This indicator is set to control the Authority's exposure to interest rate risk. A target is set for the one-year impact of a 1% rise and a 1% fall in interest rates on the revenue account. This is measured by examining the parallel shifts in yield curves on borrowing net of treasury investments.

10.4.2. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m

10.4.3. It should be noted that the limit set is not intended to be a hard limit that will constrain new investments, and it would not be unusual for the limit to be exceeded on occasion during the course of normal treasury management activity during the year. Any material deviation from the limits set will be reported as part the quarterly monitoring of prudential indicators.

11. Monitoring Prudential Indicators

11.1. Having established the Prudential Indicators, the Executive Director of Corporate Services and Commercial 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.

Financial Implications

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

Legal Implications

None.

Corporate Risk Implications

Treasury management risks are assessed and managed under the Treasury Management Policy and Strategy and the Treasury Management Practices. The Council will operate within the limits and parameters and in line with the strategy for 2025/26 as set out in this report. Regular reports will be provided to Cabinet and Council and Audit and Governance Committee during the year to monitor against the Council's agreed risk appetite and report on any additional risk implications that may impact upon treasury management activities during 2025/26 should these arise.

Staffing HR Implications

None

Conclusion

The Council has set the Prudential Indicators in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities and to comply with Government regulations. The Council is acting prudently in that its capital expenditure proposals remain affordable, and that effective control of risks associated with borrowing, investments and cashflows is being implemented in the pursuit of optimum performance consistent with those risks.

Alternative Options Considered and Rejected

None.

Equality Implications: There are no equality implications.
Impact on Children and Young People: None.
Climate Emergency Implications: The recommendations within this report will have a neutral impact. The setting of the Prudential Indicators will have no direct impact on the Council's

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Climate Emergency.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Services and Commercial (FD7936/25) and the Chief Legal and Democratic Officer (LD6036/25) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors: Arlingclose have provided advice with regards to setting the Prudential Indicators for 2025/26.

Implementation Date for the Decision:

Immediately following the Council meeting.

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 to this report.

Appendix A – List of Prudential Indicators 2025/26

Capital Expenditure					
	2023/24 £m Actual	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate
TOTAL	40.937	81.122	133.837	52.543	17.700

Financing Costs / Net Revenue Stream					
	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio	5.3%	6.1%	6.5%	6.7%	6.9%

Net Income from Commercial and Service Investments to Net Revenue Stream					
	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio	1.2%	1.1%	1.1%	0.9%	0.9%

Capital Financing Requirement					
	31/03/24 £m Actual	31/03/25 £m Estimate	31/03/26 £m Estimate	31/03/27 £m Estimate	31/03/28 £m Estimate
CFR	229.452	242.763	249.679	263.081	253.866

Operational Boundary					
	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	
Borrowing	198	203	216	206	
Other Long-Term Liabilities	7	5	5	4	
TOTAL	205	208	221	210	

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Authorised Limit				
	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	223	228	241	231
Other Long-Term Liabilities	7	5	5	4
TOTAL	230	233	246	235

	31/03/2024 £m
Borrowing	136.778
Other Long-Term Liabilities	4.515
TOTAL	141.293

Gross Debt and the CFR					
	2023/24 £m Actual	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate
CFR	229.452	242.763	249.679	263.081	253.866
Gross Debt	141.293	199.051	202.380	214.125	203.334
Under / (Over) Borrowing	88.159	43.712	47.299	48.956	50.532

Liability Benchmark	31.03.24 Actual £m	31.03.25 Forecast £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Loans CFR	224.8	236.1	244.1	258.4	250.0
Less: Balance sheet resources	-111.0	-55.6	-28.9	-24.7	-23.8
Net loans requirement	113.8	180.5	215.2	233.7	226.2
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	123.8	190.5	225.2	243.7	236.2

Debt Maturity	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 15 years	40%	0%
15 years and above	50%	20%

Long Term Treasury Management Investments					
	2024/25	2025/26	2026/27	2027/28	No Fixed Maturity
Upper Limit	£15m	£15m	£10m	£5m	£15m

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£1m

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Report Title: Treasury Management Policy and Strategy 2025/26

Date of meeting:	11 February 2025		
	13 February 2025		
	27 February 2025		
Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)		
	Cabinet		
	Council		
Report of:	Executive Director of Corporate Services and Commercial		
Portfolio:	Corporate Services		
Wards affected:	All wards		
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 & Scrutiny Committee is requested 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

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approval of the Treasury Management Policy, Treasury Management Strategy and Minimum Revenue Provisions Policy Statement.

Cabinet is recommended to:

- 1) Recommend to Council that the Treasury Management Policy Document for 2025/26 be agreed;
- 2) Recommend to Council that the Treasury Management Strategy Document for 2025/26 be agreed;
- 3) Recommend to Council that the Minimum Revenue Provision Policy Statement 2025/26 be agreed.

Council is recommended to:

- 1) Approve the Treasury Management Policy Document for 2025/26;
- 2) Approve the Treasury Management Strategy Document for 2025/26;
- 3) Approve the Minimum Revenue Provision Policy Statement 2025/26.

The Rationale and Evidence for the Recommendations

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.

1. Background

- 1.1. The Council has adopted CIPFA's 2021 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 2021 Prudential Code for Capital Finance in Local Authorities; and
 - b) An Investment Strategy produced in line with the then 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 its revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021. The key changes in the two codes, which replace the 2017 codes, are

around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. Sefton has fully adopted the revised reporting requirements.

- 1.4. A new International Accounting Standard (IFRS 16) on leases has been adopted by the Code of Practice on Local Authority Accounting with effect from 1 April 2024. The new standard is anticipated to bring most operating leases onto the Council's balance sheet once fully implemented (subject to exceptions for short dated and low value leases). This will have an impact on the Capital Financing Requirement (CFR) in 2024/25, however, work to fully assess the impact will be dependent on confirmation of the Council's final capital outturn at the end of the financial year. The capital values used to prepare this report, the Council's Prudential Indicators report, and Capital Strategy for 2025/26 (also included on the agenda for this meeting) are therefore based on estimated amounts for the capitalisation of leases under the new accounting standard. The impact of IFRS 16 during 2025/26 will be assessed and Cabinet and Council will be informed of any material changes to the prudential indicators as part of regular Treasury Management reporting.

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 2025/26; 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.
 - d) Investment Management Practices for investments that are not part of Treasury management activity.

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 2021 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

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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 of Corporate Services and Commercial, 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, in February 2018 and again in 2024. Changes made in the 2024 Guidance have been set out in the MRP policy statement.
- 4.7. The policy document presented with this report has been revised to ensure that it is compliant with the changes introduced by the new regulations.
- 4.8. The proposed MRP Policy Statement is set out in **Appendix C**.

Financial Implications

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

Legal Implications

None.

Corporate Risk Implications

Treasury management risks are assessed and managed under the Treasury Management Policy and Strategy and the Treasury Management Practices. The Council will operate within the limits and parameters and in line with the strategy for 2025/26 as set out in this report. Regular reports will be provided to Cabinet and Council and Audit and Governance Committee during the year to monitor against the Council's agreed risk appetite and report on any additional risk implications that may impact upon treasury management activities during 2025/26 should these arise.

Staffing HR Implications

None

Conclusion

The Council has set a Treasury Management Strategy in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities and to comply with Government regulations. The Council is acting prudently in that its capital expenditure proposals remain affordable, and that effective control of risks associated with borrowing, investments and cashflows is being implemented in the pursuit of optimum performance consistent with those risks.

Alternative Options Considered and Rejected

None.

Equality Implications:
There are no equality implications.
Impact on Children and Young People:
None.
Climate Emergency Implications:
The recommendations within this report will have a neutral impact. The Council will during 2025/26, 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 is not anticipated that the opportunity will arise to invest in longer term financial instruments or investment funds which may impact on the Council's Climate Emergency motion.

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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 the Treasury Management Advisors.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Services and Commercial (FD.7935/25) and the Chief Legal and Democratic Officer (LD.6035/25) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors: Arlingclose have provided advice with regards to setting the Treasury Management Strategy for 2025/26.

Implementation Date for the Decision:

Immediately following the Council meeting.

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

Appendices:

Treasury Management Policy (Appendix A)

Treasury Management Strategy (Appendix B)

Minimum Revenue Provision Policy Statement (Appendix C).

Background Papers:

There are no background papers to this report.

Treasury Management Policy

2025/26

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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 four officers carry out the day-to-day treasury management activities. Three 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 June 2024, the Council engaged Arlingclose Ltd. as its treasury consultants from 1st October 2023 to 30th September 2027, 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 2025/26 is attached at **Appendix B**.

4. Delegated Powers

- 4.1. The Executive Director of Corporate Services and Commercial, 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 of Corporate Services and Commercial, 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 of Corporate Services and Commercial (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, Investment 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 of Corporate Services and Commercial will:

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- 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) Maintain suitable Investment Management Practices (IMPs) for investments that are not for treasury management purposes;
- g) Be responsible for the execution and administration of treasury management decisions; and
- h) Act in accordance with the Council's Policy Statement, Treasury Management Practices and Investment 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.

Treasury Management Strategy

2025/26

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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 2021 and the Prudential Code for Capital Finance 2021.

2. Treasury Management Strategy 2025/26

- 2.1. The Strategy for 2025/26 covers:
 - a) Treasury Limits in force which will limit the borrowing activity of the Council (2.2);
 - b) Prudential Indicators 2025/26 to 2027/28 (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, 2.16 and 2.17);
 - n) Interest on School Balances (2.18);
 - o) Environment, Social and Governance Policy (2.14.159);
 - p) The Climate Emergency (2.20);
 - q) Member and Officer Training (2.21).

2.2. Treasury Limits for 2025/26

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

Affordable Borrowing Limit	Maximum	£233m
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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 2025/26, the need to fund capital expenditure previously met from internal funding, and cash flow requirements.

Short-term Borrowing Limit	Maximum £30m
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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 prudential indicators listed below are considered relevant by CIPFA for setting an integrated Treasury Management Strategy. A full list of the Council's Prudential Indicators for 2025/26 can be found in the Prudential Indicators report also on the agenda for this meeting.

2.3.1. Liability Benchmark

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Liability Benchmark	31.03.24 Actual £m	31.03.25 Forecast £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Loans CFR	224.8	236.1	244.1	258.4	250.0
Less: Balance sheet resources	-111.0	-55.6	-28.9	-24.7	-23.8
Net loans requirement	113.8	180.5	215.2	233.7	226.2
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	123.8	190.5	225.2	243.7	236.2

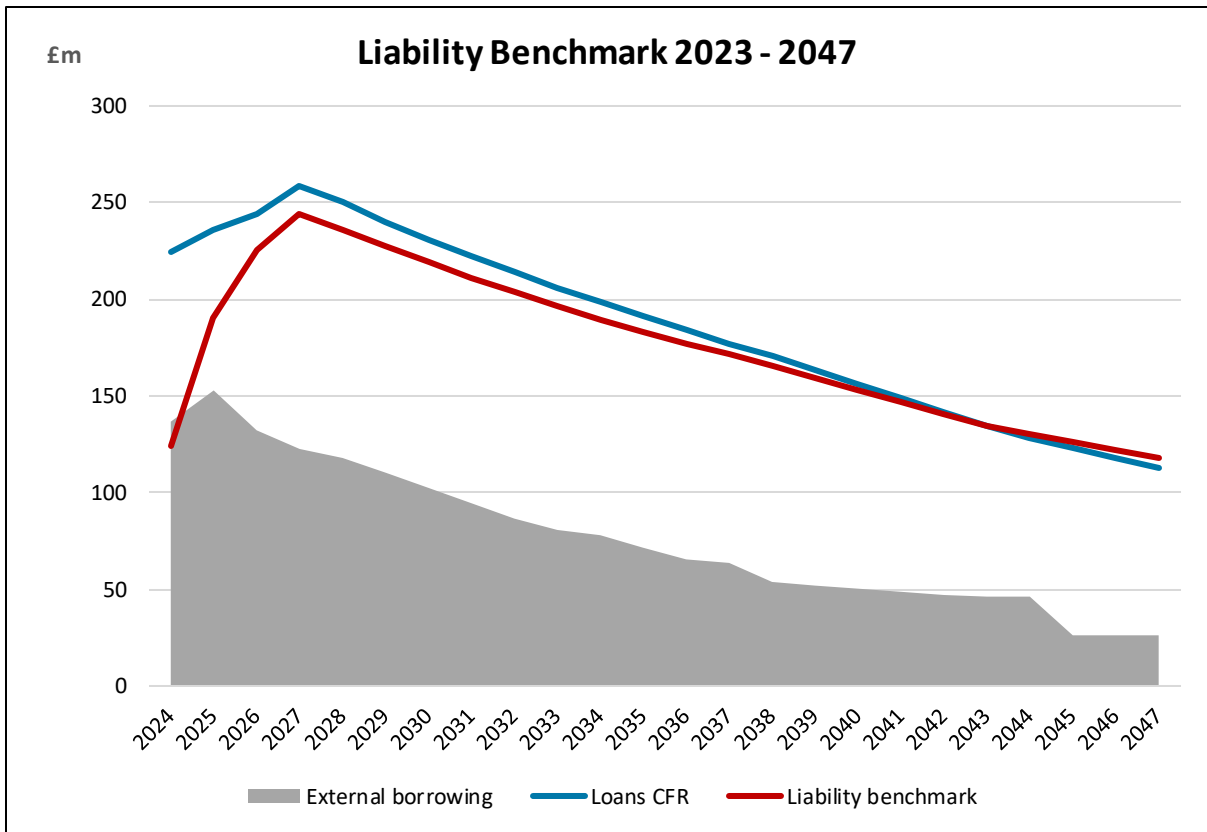
The table above can be briefly explained as:

- Loans CFR – 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.
- Less balance sheet resources available to fund the current approved capital programme.
- Net Loans Requirement – an estimate of the amount of borrowing required to fund the capital programme.
- Liquidity Allowance – the minimum amount of cash required to meet unexpected payments.

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- Liability Benchmark – 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.

A long-term forecast for the liability benchmark plotted against external borrowing for the next 25 years can be seen in the chart below. The long-term liability benchmark assumes capital expenditure funded by borrowing in line with the approved capital programme, minimum revenue provision on new capital expenditure based on standard asset life and income, expenditure and reserves all increasing by inflation of 2.5% each year.



2.3.2. 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 2025/26	Upper Limit %	Lower Limit %
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 15 years	40%	0%
15 years and above	50%	20%

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.

2.3.3. Long Term Treasury Management Investments

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

The limits shown below are the maximum amounts that can be invested beyond the end of the financial year. The authority cannot therefore hold more than £15m due to mature after 31 March 2026, no more than £10m due to mature after 31 March 2027 and £5m after 31 March 2028.

A limit is also set for investments with no fixed maturity date such as strategic pooled funds and the property fund.

Long Term Treasury Investments				
	2025/26	2026/27	2027/28	No fixed Maturity
Limit on Principal Invested Beyond Year End	£15m	£10m	£5m	£15m

2.3.4. Interest Rate Risk Indicator

This indicator is set to control the Authority's exposure to interest rate risk. A target is set for the one-year impact of a 1% rise and a 1% fall in interest rates on the revenue account. This is measured by examining the parallel shifts in yield curves on borrowing net of treasury investments.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

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Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m

It should be noted that the limit set is not intended to be a hard limit that will constrain new investments, and it would not be unusual for the limit to be exceeded on occasion during the course of normal treasury management activity during the year. Any material deviation from the limits set will be reported as part the quarterly monitoring of prudential indicators. The Authority's approach to managing interest rate risk is further outlined in paragraph 2.6 below.

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 of Corporate Services and Commercial.

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 (2.10.10);
 - 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.

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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	31/12/2024
Average Interest Rate	3.86%
<u>Debt Outstanding – Fixed Rate</u>	£m
PWLB	147.581
Short-Term Loans	20.000
Other Long-Term Liabilities	<u>4.296</u>
Total Debt	171.877

2.8.2. Other long-term liabilities shown above represent transferred debt from the Merseyside Residuary Body (£0.219m) and finance lease liabilities (£4.077m). The authority also holds £20m in loans from other UK public sector bodies taken on a short-term basis to meet short term cashflow requirements.

2.8.3. The Council will raise its required finance from the sources listed below. Although there are a range of options available, HM Treasury's PWLB lending facility will be considered in the first instance as the main lender to local government. No borrowing arrangements will be entered into until advice is taken from the Council's treasury management advisors and following approval from the Executive Director of Corporate Services and Commercial (or in their absence the Deputy Section 151 Officer).

- HM Treasury's PWLB lending facility
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)

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- 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 2025/26 is as follows:

Borrowing Requirement	Estimate £m
New Borrowing	26.651
Replacement Borrowing	<u>5.000</u>
Total Borrowing	31.651

2.8.6. The new borrowing represents the unsupported borrowing as required by the Capital Programme in 2025/26 and borrowing undertaken to reverse the Councils internal borrowing position. 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 on investments at lower 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 on a short-term basis.

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.

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- 2.8.9. PWLB borrowing as at 31st December 2024, plus other long-term liabilities, is £172m, as against an estimated CFR of £243m for 2024/25. This means that the Council is in a position to borrow a further £71m 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. Given the historical cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators.
- 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 rise modestly. 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 2025/26. The Executive Director of Corporate Services and Commercial 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.
- 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.

2.11. 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 £233m. 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 –

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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 DLUHC, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 and the CIPFA Treasury Management in Public Services Guidance Notes 2021 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. The Authority aims to be a responsible investor and will also consider environmental, social and governance (ESG) issues when investing (see 2.19 below).
- 2.14.4. The Council's investment portfolio as at 31st December 2024 is set out below:

Investments Portfolio	£m
Money Market Funds	7.180
CCLA Property Fund	<u>5.000</u>
Total	12.180

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

** a further explanation of counterparties can be found at Appendix B4*

2.14.6. The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

2.14.7. 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:

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

2.14.8. 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.

2.14.9. 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 although as of 2022 the UK Government is no longer a majority shareholder. 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.

2.14.10. 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	<ul style="list-style-type: none"> • Australia • Denmark • Germany • Luxembourg • Netherlands • Norway • Singapore • Sweden
AA+	<ul style="list-style-type: none"> • Austria • Canada • Finland • USA

AA	<ul style="list-style-type: none">• Ireland• United Kingdom
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- 2.14.11. The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.
- 2.14.12. 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:
- i) BGC Group Inc.;
 - ii) Tradition UK Limited;
 - iii) King & Shaxson 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.

- 2.14.13. It is not proposed to make any investments in 2025/26 that do not comply with the above strategy, however, should the situation change, the Executive Director of Corporate Services and Commercial will report to Cabinet requesting appropriate approval to amend the strategy before any such investments are made.
- 2.14.14. 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.
- 2.14.15. 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: Service 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.
- 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. The amount of debt facility released to the housing company as of 31 December 2024 is £5.718m and this will be fully repaid by March 2026. 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.
- 2.15.3. A similar arrangement exists for the wholly owned hospitality company, Sefton Hospitality Operations Limited for whom a lower debt facility of £1.4m has been provided. The amount of debt facility released to the housing company

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as of 31 December 2024 is £0.561m and this will be fully repaid by March 2031.

2.15.4. The limits for Service Investments for 2025/26 will therefore be set as per the debt facilities described above:

Borrower	Approved Limit £m
Sandway Homes Ltd.	8.3
Sefton Hospitality Operations Ltd.	1.4

2.16. Non-Treasury Investments: Service Investments (Shares)

2.16.1. The Council holds shares in companies that are its wholly owned subsidiaries, the purpose of which are to support local public services and stimulate local economic growth. The three subsidiaries in which the Council holds shares are as follows:

- Sefton New Directions Limited – a company that conducts some of the Council's adult social care activities.
- Sandway Homes Limited – a company that engages in housebuilding activity.
- Sefton Hospitality Operations Limited – a company that engages in hospitality activity.

2.16.2. The value of shares held in the above companies are of nominal value (£1 per share) and therefore do not carry the same risks and exposures as shares that are purchased as an investment and may change in value in response to market forces. The Council's approach to shares in its wholly owned subsidiaries will be to continue to hold the shares, the total value of which are shown in the table below.

Subsidiary	Number of Shares Held	Value at 31/03/2024 £
Sefton New Directions Ltd.	1,000	1,000
Sandway Homes Ltd.	100	100
Sefton Hospitality Operations Ltd.	1	1

2.17. Non-Treasury Investments: Commercial Investments

2.17.1. Investments for commercial purposes are undertaken as a commercial business activity seeking profit that will be spent on local services. The Council's non-treasury commercial investments consist of an investment property portfolio of 177 properties which, after deducting maintenance costs, generate net income which contributes to the provision of services or present an opportunity for capital gain through redevelopment. 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.

2.17.2. The Council's Asset Management Strategy provides a framework for the planning, prioritisation, management and funding of the Council's asset base. The property asset base divides into operational and non-operation properties, the latter of which is also known as the Investment portfolio.

2.17.3. 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.

2.17.4. The strategy is 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.

2.18. Interest on Schools Balances

2.18.1. The Council holds, as part of its cash balances, amounts relating to school's reserves. The main element of this reserve is individual carry forward balances of school's unspent budgets, and it is the Council's responsibility to hold these balances and ensure they are ring-fenced for use against school activities.

2.18.2. Until such time as school's balances are spent by individual schools, the cash will form part of the Council's day-to-day investment activities as outlined in the strategy above. Interest will therefore be applied to school's balances to reflect any interest earned on the reserves at the average Bank of England base rate (calculated over the financial year) less 0.5%.

2.18.3. The Council also holds centrally retained Dedicated Schools Grant (DSG) balances in respect of Schools Central Support Services, Early Years and High Needs non-schools' provision. A deficit balance was held in the High Needs block at 31st March 2024 of £38m. This deficit has been increasing year on year and has a significant impact on the Council's cashflow position. This has meant that interest earned on investments of cash balances has been less than it would have been without the deficit.

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2.19. Environmental, Social and Governance (ESG) Policy

- 2.19.1. ESG considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 2.19.2. Furthermore, 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.
- 2.19.3. It is recommended that the Executive Director of Corporate Services and Commercial, 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.

2.20. The Climate Emergency

- 2.20.1. 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.
- 2.20.2. In recent years, the Council has seen its level of reserves and balances reduce and as a result where in previous years, it would have invested these surplus resources in longer term financial instruments or investment funds that may have had an impact on the Council's motion, it now deposits these lower value residual funds overnight with either banks or money market funds.
- 2.20.3. 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.

2.21. Member and Officer training

2.21.1. CIPFA's Code of Practice requires the Executive Director of Corporate Services and Commercial 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.

2.21.2. 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.

INTEREST RATE FORECAST

Arlingclose Interest Rate Forecast – December 2024

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:

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%
 PWLB Certainty Rate = Gilt yield + 0.80%
 National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Arlingclose Economic and Interest Rate Forecast (Commentary)

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates have risen due to higher energy prices and less favorable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.
- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.
- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

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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.

TREASURY COUNTERPARTY EXPLANATION

- **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- **Local authorities and other government entities:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.
- **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
- **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- **Strategic pooled funds:** Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk. This type of investment will not be entered into without first seeking specialist external advice.

Minimum Revenue Provision Policy Statement

2025/26

1. Background

- 1.1. The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement only incorporates options recommended in the Guidance as well as locally determined prudent methods.
- 1.2. 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.
- 1.3. MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.
- 1.4. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.
- 1.5. 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].
- 1.6. 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.
- 1.7. 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

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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.

IFRS16 – Operating Leases

- 2.7. Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

Option 4 – Depreciation Method

- 2.8. 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

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significant changes in the amount of depreciation charged. Given this potential adverse impact on future budgets this option is not considered viable.

2.9. Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27 or later.

2.10. Based on the Authority's latest estimate of its CFR on 31st March 2025, the budget for MRP has been set as follows:

	31.03.2025 CFR £m	2025/26 MRP £m
Total Estimate	242.763	9.120

Use of Capital Receipts

2.8 Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in equal instalments starting in the year after receipt is applied.

Capital loans

2.11. For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

2.12. For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

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2.13. For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

2.14. For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

3. MRP Statutory Guidance (November 2024)

3.1. In November 2024, the Government issued revised statutory guidance on the minimum revenue provision.

3.2. The key changes to the guidance included:

- Local authorities cannot exclude any amount of their Capital Financing Requirement (CFR) from their MRP calculation, unless by an exception set out in law.
- Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP, with specific exceptions for capital loans and leased assets.
- For capital loans given on or after 7th May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding minus any expected credit loss.
- Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the current 2024/25 year.

4. MRP Policy for 2025/26

4.1. The recommended MRP policy is summarised below:

<u>Category</u>	<u>Basis of MRP Calculation</u>
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

<u>PFI and Leasing Arrangements</u>	<u>Basis of MRP Calculation</u>
On balance sheet PFI contracts	MRP charge to be equal to the principal element of the annual rental
On balance sheet leasing arrangements	MRP charge to be equal to the principal element of the annual rental

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- 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 Services and Commercial 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 an MRP provision does not need to be made in certain circumstances. These loans may only be excluded from the MRP calculation where they meet the definition required under the Capital Finance and Accounting Regulations.
- 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 the Capital Financing Requirement

Any proposal to use capital receipts to reduce the overall Capital Financing Requirement and therefore reduce future MRP charges will be presented for approval in line with the Council's scheme of delegation.

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Report Title: Capital Strategy 2025/26

Date of meeting:	11 February 2025		
	13 February 2025		
	27 February 2025		
Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)		
	Cabinet		
	Council		
Report of:	Executive Director of Corporate Services and Commercial		
Portfolio:	Corporate Services		
Wards affected:	All Wards		
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 Council’s priorities, the Corporate Plan 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 to 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.

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Recommendation(s):

Overview and Scrutiny Committee is requested to:

(1) Consider the Capital Strategy and provide any comments to Council that will be considered as part of the formal approval of the Capital Strategy.

Cabinet is asked to:

(1) Recommend that Council approve the Capital Strategy as set out in Appendix A.

Council is recommended to:

(2) Approve the Capital Strategy as set out in Appendix A.

1. I

Introduction

1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 Edition) requires all Local Authorities to adopt a Capital Strategy. It is mandatory for all authorities to have this approved and in place and have it considered alongside the Council's other key budget reports such as the Treasury Management Strategy.

2. Content

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

2.2 The key areas that will be included in the Capital Strategy are:

- governance and prioritisation
- capital expenditure and resources
- asset management strategy
- commercial activities
- investments for service purposes
- non-financial investments
- treasury management, debt and borrowing
- liabilities
- revenue budget implications
- 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.

3. Financial Implications

- 3.1 There are no direct revenue or capital costs associated with the recommendations in this report.
- 3.2 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.

4. Legal Implications

- 4.1 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 (2021 Edition). Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

5. Risk Implications

- 5.1 The Capital Strategy supports effective risk management by ensuring prudent borrowing and long-term financial planning, enhancing governance and transparency, and improving operational efficiency through detailed project and asset management. It aligns investments with strategic objectives, defines risk appetite, and prepares for economic and regulatory changes, thereby building financial resilience and ensuring sustainable development. By integrating these elements, local authorities can better manage risks and achieve desired outcomes.

6. Staffing HR Implications

- 6.1 None.

7. Conclusion

- 7.1 The Capital Strategy outlines a comprehensive approach to managing the local authority's financial resources, ensuring sustainable development and service delivery. By prioritising funding, effective project management, and robust governance, the strategy aims to address both current and future needs of the community. It emphasizes the importance of aligning investments with strategic objectives, managing risks, and promoting equality and inclusivity. Through careful planning and execution, this strategy will support the long-term financial health and resilience of the local authority, ultimately enhancing the quality of life for all residents.

Alternative Options Considered and Rejected

None. The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 Edition) requires all Local Authorities to adopt a Capital Strategy.

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Equality Implications:

There are no direct equality implications. However, the Equality Act 2010 requires that local authorities must have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different groups. Equality Impact Assessments conducted for schemes approved in line with this Capital Strategy support this aim.

Impact on Children and Young People:

Schemes approved in line with the Capital Strategy can significantly impact children and young people by improving educational facilities, creating safe and engaging recreational spaces, and enhancing community services. Investments in schools and special educational needs facilities ensure that children receive quality education in well-equipped environments. Additionally, investment in parks and sports facilities provides safe spaces for physical activity and social interaction, promoting overall well-being.

Climate Emergency Implications:

The recommendations within this report will have a Neutral impact.

The climate emergency implications of schemes approved in line with this Capital Strategy will be considered and reported on a scheme-by-scheme basis.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Services and Commercial (FD.7923/25.) and the Chief Legal and Democratic Officer (LD.6023/25.) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors, Arlingclose Ltd, have reviewed the Capital Strategy.

Implementation Date for the Decision:

Officers will be authorised to implement all decisions within this report immediately following the Council meeting.

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Appendices:

Appendix A – Capital Strategy 2025/26

Background Papers:

There are no background papers available for inspection.

Capital Strategy

2025/26

1 Introduction

- 1.1 This Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance understanding of all stakeholders and those who may be interested in the Council's activities.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

2 Background

- 2.1 The Capital Strategy is a key policy document for Sefton and follows guidance issued in the Prudential Code for Capital Finance in Local Authorities (2021 Edition). 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 and its Corporate Plan and sets out how capital expenditure will play a significant role in its delivery through the 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.
- 2.2 Given the financial challenges faced by many councils, including Sefton, and the need for fundamental reform, the strategy emphasizes the importance of locally generated income (e.g., Council Tax and Business Rates) to support local government funding. This is particularly relevant in light of the ongoing economic conditions in the UK, such as high inflation, rising interest rates, and a cost-of-living crisis.
- 2.3 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.
- 2.4 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, as has been the case with major developments planned for Bootle and Southport.
- 2.5 The Capital Strategy will be the framework from which capital expenditure and investment decisions in Sefton are made to enable the delivery of the growth programme. 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;

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- Expectations around debt and use of borrowing to support capital expenditure;
- The knowledge and skills in the authority in relation to capital investment activities.

- 2.6 A new International Accounting Standard (IFRS 16) on leases has been adopted by the Code of Practice on Local Authority Accounting with effect from 1 April 2024. The new standard is anticipated to bring most operating leases onto the Council's balance sheet once fully implemented (subject to exceptions for short dated and low value leases). This will have an impact on the Capital Financing Requirement (CFR) in 2024/25, however, work to fully assess the impact will be dependent on confirmation of the Council's final capital outturn at the end of the financial year. The capital values used to prepare this report, the Council's Treasury Management Strategy and Prudential Indicators report for 2025/26 (also included on the agenda for this meeting) are therefore based on estimated amounts for the capitalisation of leases under the new accounting standard. The impact of IFRS 16 during 2025/26 will be assessed and Cabinet and Council will be informed of any material changes to the prudential indicators as part of regular Treasury Management reporting.
- 2.7 The Council also holds centrally retained Dedicated Schools Grant (DSG) balances in respect of Schools Central Support Services, Early Years and High Needs non-schools provision. A deficit balance was held in the High Needs block at 31st March 2024 of £38m. As reported separately, this deficit has been increasing year on year and has a significant impact on the Council's cashflow position. This has meant that interest earned on investments of cash balances has been less than it would have been without the deficit.

3 Capital Programme Governance and Prioritisation

- 3.1 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 Corporate Plan.
- 3.2 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.
- 3.3 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.
- 3.4 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 – Corporate Services;
 - In excess of £250k up to and including £1m can be approved by Cabinet;

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- 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.

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

3.6 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.

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

4 Capital Expenditure and Resources

4.1 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.

4.2 In 2025/26, the Authority is planning capital expenditure of £133.837m:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

Capital Expenditure					
	2023/24 £m Actual	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate
TOTAL	40.937	81.122	133.837	52.543	17.700

4.3 The estimated levels of expenditure above represent those elements approved by Council and which have been included within the Capital Programme. A summary of the Council's current capital programme is included as part of the Council's main budget report, and has been published alongside this strategy document, and this will be updated as future capital decisions are made.

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- 4.4 The Council may also receive additional block allocations of grant from central government and the City Region for 2025/26 but these have not yet been confirmed. The grant allocations will be added to the capital programme following approval by Cabinet and Council. The estimated amounts to be received and included in the estimates of capital expenditure (above), are shown below for information. There may be further allocations which will be approved by Cabinet and Council.
- Disabled Facilities Grant - £5.985m
 - Schools Basic Needs Allocation - £1.685m
 - Schools Condition Allocation - £2.241m
 - Devolved Formula Capital Grant - £0.341m
 - City Region Sustainable Transport Settlement - £8.466m.
- 4.5 The increase in capital during 2024/25 and 2025/26 shown in the table above represents additional allocations added due to: additional expenditure in relation to highways schemes; projects linked to the Council's Growth Programme; reprofiling of capital expenditure linked to Corporate Essential Maintenance.
- 4.6 The Town Deal projects (see Section 8 "Southport Town Deal") were approved by the former Department for Levelling Up, Housing and Communities (DLUHC). The allocation for Phases 1A-C of the Strand Repurposing Programme is funded by grant from the former DLUHC (see Section 9 "Bootle Strand Shopping Centre") with further contributions anticipated from the Liverpool City Region Combined Authority.
- 4.7 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. 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.
- 4.8 Capital Expenditure must be incurred in line with the Financial Procedure Rules. The Executive Director of Corporate Services and Commercial (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.
- 4.9 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.
- 4.10 Capital expenditure is typically funded from:
- Government Grants
 - Section 106
 - External Contributions
 - Prudential Borrowing
 - Capital Receipts

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4.11 The planned financing of the Capital Expenditure Estimates included in Table 1 is as follows:
Table 2: Capital financing in £ millions

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 Budget	2027/28 budget
Grants	30.660	55.600	115.520	28.592	16.084
Capital Receipts	2.426	3.276	1.417	0	0
Contributions	1.847	0.198	0.400	0	0
Borrowing	6.005	22.047	16.501	23.951	1.616
TOTAL	40.937	81.122	133.837	52.543	17.700

4.12 There may be instances where it may be advantageous for the Council to reallocate funding between capital schemes. This is delegated to the Section 151 Officer and any such reallocation of funding will be in line with the terms and conditions attached to that funding (if any). Where there are implications for the Council's budget, this will still need to be approved in accordance with the Financial Procedure Rules.

4.13 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Minimum revenue provision (MRP)	7.318	8.294	9.120	10.078	10.305
Capital receipts	0	0	0	0	0
TOTAL	7.318	8.294	9.120	10.078	10.305

4.14 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP. The CFR is expected to increase by £7m during 2025/26. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
TOTAL CFR	229,452	242,763	249,679	263,081	253,866

Prudential Borrowing

4.15 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.

4.16 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

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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.

- 4.17 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.
- 4.18 The financing of the capital programme will be delegated to and determined by the Executive Director of Corporate Services and Commercial (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.
- 4.19 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.
- 4.20 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.
- 4.21 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.

5 Asset Management Strategy

- 5.1 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.
- 5.2 The main objectives of capital expenditure on operational assets are to ensure that they meet health and safety standards, are fit for purpose in terms of statutory guidance and legislation, to ensure that capital assets continue to be of long-term use, 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.

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- 5.3 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 subject to disposal.
- 5.4 When a capital asset is subject to disposal, the proceeds received are known as capital receipts. These can be spent on new assets or used to repay debt. The Authority plans to utilise £1.417m of capital receipts in the coming financial year. This will be funded from asset sales which have been approved as part of the wider asset disposal programme. This is part of a wider pipeline of asset disposals which total approximately £30m.
- 5.5 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.
- 5.6 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.

6 Commercial Activities

- 6.1 This section aims to bring together for visibility details of assets held by the Council which generate a financial return. These relate to legacy arrangements such as concessions at Southport seafront, parks and gardens; the freehold interest in the Strand Shopping Centre; rents linked to small retail units; industrial units; clubs; and car park income. These are legacy arrangements and there have been no such investments in recent history. The Council has not and will not invest out of borough.
- 6.2 The governance structure for all capital investment and expenditure decisions, explained in Section 3, contains additional gateway processes which allow further scrutiny, checks and levels of approval for commercial activity in recognition of the enhanced risk involved.
- 6.3 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.

7 Investments for Service Purposes: Sandway Homes, Sefton Hospitality Operations Limited (SHOL) and Sefton New Directions (SND)

- 7.1 The Council makes investments to assist local public services which includes making loans to the Council's subsidiaries that provide services and support the Council's Corporate Plan.
- 7.2 The Council has a 100% wholly owned company in Sandway Homes Limited with Cabinet being the shareholder and a shareholder representative. 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 approving the financial estimates and arrangements including the provision of a debt facility that supports working capital.
- 7.3 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.
- 7.4 The last Business Plan update was provided to Cabinet in December 2023. This builds on previous annual business plan updates that are provided which then inform budget estimates

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that are included in the Medium Term Financial Plan for subsequent years. The update estimates that a dividend of £0.301m would be paid to the Council in November 2025 upon completion of Phase 1 and that this is in addition to a capital receipt of £2.2m from the sale of 3 sites.

- 7.5 The Council also approved a loan between itself and the company and the current peak debt estimate for the company is £8.3m as reported to Cabinet in September 2023.
- 7.6 A similar arrangement exists for the wholly owned hospitality company, Sefton Hospitality Operations Limited for whom an initial lower debt facility of £0.5m has been provided. This was revised to £1.4m as reported to Cabinet in December 2023 due to changes in the external economic environment and the impact those changes have on the business plan for the company. This increased shareholder loan supports the business in its long-term sustainability given the external pressures whilst also supporting the growth of the business.
- 7.7 The total investment for service purposes as at 31 December 2024 is £6.279m which relates to loans to Sandway Homes £5.718m and Sefton Hospitality Operations Limited (SHOL) £0.561m. This provides a net return after all costs of 2.2% above the national loans rate (as published by the Debt Management Office).
- 7.8 The Council also own shares in Sefton New Directions (SND) which is a wholly owned subsidiary. There has been no additional direct investment such as loans or debt facilities made available by the Council to the company.
- 7.9 The following table provides an overview of the net income from both commercial and service investments:

Table 5: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Total net income from service and commercial investments (£m)	2.860	2.616	2.868	2.474	2.474
Proportion of net revenue stream	1.2%	1.1%	1.1%	0.9%	0.9%

8 Southport Town Deal

- 8.1 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.
- 8.2 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.
- 8.3 The objective of the Town Deal Fund is to drive the economic regeneration of towns to deliver long term economic and pro

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

- 8.4 The Capital Strategy sets the governance framework from which the Council as Accountable Body for the bid will ensure: good governance, transparency, public consultation, 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.
- 8.5 The business cases for each of the projects were approved by the Department for Levelling Up, Housing and Communities (DLUHC) – for the £37.5m Town Deal funding – and by the Liverpool City Region Combined Authority who are providing an additional £20m towards the Marine Lake Events Centre development. Projects continue to be progressed with delivery of all projects currently anticipated by 2026/27.
- 8.6 Council also approved a contribution of £19.7m towards the Marine Lake Events Centre project. The Council's Treasury Management advisors have been consulted on the approach to the appropriate finance arrangements. This will continue to be kept under regular review with the advisors and any changes to this assumption, including any external borrowing requirement, will be reported as part of the regular treasury management updates to Members.

9 Bootle Strand Shopping Centre

- 9.1 The Council's objectives for the acquisition of The Strand in 2017 were for regeneration purposes, to ensure that it was supported to continue its role in the local community, as a key asset at the heart of Bootle critical to the town's physical, economic, and social regeneration. This remains the Council's priority in relation to the Strand.
- 9.2 In December 2023, Cabinet approved a robust business case which sets out the deliverability of Phase 1 of the Programme and provides accompanying financial forecasts for the coming years, via an updated 5-year Business Plan, accounting for the impacts of the economy and of the works on day-to-day operations as well as outlining the positive outcomes on the Business Plan and wider regeneration objectives of proceeding with the Programme.
- 9.3 The Council has been awarded £20m of Capital Levelling Up Funding from the former DLUHC to fund the initial Phases 1A-C of the Programme. Additional funding is being sought from the Liverpool City Region Combined Authority for enabling works and further phases of the transformation. On confirmation on the funding, Council approvals will be required for the associated supplementary estimates in line with the requirements of the Financial Procedure Rules.

10 Temporary Accommodation

- 10.1 Sefton, like many local authorities across the country, is facing an increase in homelessness. The number of households in temporary accommodation has risen sharply over recent years and the increase is driven by factors such as the introduction of the Homelessness Reduction Act (2017) and a lack of affordable 'move on' accommodation.

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- 10.2 To address these challenges, a strategic approach is required to review current service delivery, commissioning and the existing temporary accommodation that is available to support residents. Part of this solution will be for the council to explore the refurbishing existing Council-owned properties or where appropriate acquiring new properties via borrowing. The acquisition and refurbishment of these properties will increase the stock of good quality Temporary Accommodation for families and children, reduce reliance on more expensive alternatives, and provide improved value for money.
- 10.3 These options as stated will save the council money, with each being considered on an individual basis with a supporting business case. Any investment will be made by via borrowing and will be funded from existing service budgets as a key feature of invest to save. An amount of £1m has been included within the capital programme for any potential acquisition and refurbishment works, with consideration of individual business cases and the decision to proceed being delegated to Cabinet.

11 Non-Financial Investment Strategy

- 11.1 The Council's non-treasury investments consist of an Investment Property portfolio of over 177 properties. They delivered a return for the Council after deducting for the cost of maintenance, net income of £2.688m in 2023/24, which contributes towards the provision of services.
- 11.2 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 3 and 4.
- 11.3 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 2024 was £27.577m. All investment properties are valued at greater than original purchase price and have hence produced an unrealised capital return.
- 11.4 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.
- 11.5 Any loans made by the Council that will support the Corporate Plan, will require a full business case including robust due diligence and will be approved in accordance with the Council's governance processes. Any loan granted will be within the Council's approved prudential indicators.

12 Treasury Management, Debt and Borrowing

Treasury Management

- 12.1 The Council has adopted CIPFA's revised 2021 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.
- 12.2 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

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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.

12.3 Table 6 below provides an overview of the Council's Treasury Management investments:

Table 6: Treasury management investments in £millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Near-term investments	11.770	15.000	5.000	5.000	5.000
Longer-term investments	5.000	5.000	5.000	5.000	5.000
TOTAL	16.770	20.000	10.000	10.000	10.000

12.4 Further details on the approach to Treasury Management investments can be found within the Treasury Management Strategy and Policy.

Debt and Borrowing

12.5 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). If 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.

12.6 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.

12.7 The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

12.8 Due to decisions taken in the past, the Authority has £171.877m borrowing at an average interest rate of 3.89% and £12.18m treasury investments at an average rate of 5.1% as at 31 December 2024.

12.9 Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement:

Table 7: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Debt (incl.	141.293	199.071	222.380	214.125	203.334

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PFI & leases)					
Capital Financing Requirement	229.452	242.763	249.679	263.081	253.866

12.10 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the table above, the Authority expects to comply with this in the medium term.

12.11 To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to £10m at each year-end. This benchmark is currently £123.800m and is forecast to rise to £243.700m over the next three years.

Table 8: Borrowing and the Liability Benchmark in £ millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Outstanding borrowing	136.8	152.9	132.3	122.7	118.0
Liability benchmark	123.8	190.5	225.2	243.7	236.2

12.12 The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 9: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit - borrowing	223	228	241	231
Authorised limit - PFI and leases	7	5	5	4
Authorised limit - total external debt	230	233	246	235
Operational boundary - borrowing	198	203	216	206
Operational boundary - PFI and leases	7	5	5	4
Operational boundary - total external debt	205	208	221	210

12.13 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 has been advantageous as it avoided cost of carry and reduces the overall borrowing costs. This position required careful management of interest rate risk in conjunction with our treasury consultants. However, the Council is now in a position where external borrowing is required – particularly in light of the need to temporarily borrow to fund the High Needs Deficit.

12.14 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)

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Unsupported (prudential) borrowing	Annuity Basis – Calculated using the estimated life method
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12.15 Standard asset lives applied to calculate MRP charge vary from 3 years for intangible assets to 50 years for land.

Public Works Loan Board (PWLB)

12.16 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.

12.17 Government wants 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.

12.18 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.

12.19 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

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13 Liabilities

13.1 This section of the Capital Strategy covers the following:

- **Pension Liability** – this is an estimate of the net liability to pay pensions. This depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.
- **Provisions** – Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.
- **Contingent Liabilities** – A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Pension Liability

13.2 The Statement of Accounts shows a liability relating to the Local Government Pension Scheme Fund deficit of £29.593m as at 31st March 2024. However, this is a notional figure that doesn't reflect the true position calculated as part of the Triennial Valuation in March 2022 which shows that the Council's element of the Fund is in surplus.

13.3 As at 31 March 2024 there was a net deficit relating to unfunded Teachers' Pensions attributable to Sefton of £3.964m. The Council has budgeted to make these payments until there is no longer a liability.

Provisions

13.4 The Council's 2023/2024 accounts include a provision for the cost of NNDR checks, challenges and appeals. The total value of the Provision as at 31 March 2024 is £5.190m. Sefton's share of the Provision as at 31 March 2024 is £5.138m.

13.5 A provision has also been made for insurance cover to enable certain known uninsured losses to be met centrally i.e. losses arising from the excesses that apply to the Authority's main insurance policies (Public Liability, Property, Employers Liability and Motor Insurance). The total value of the Provision as at 31 March 2024 is £3.733m.

Contingent Liabilities

Collateral warranty by the Council in favour of the Security Trustee (Prudential Trustee Company Limited)

- 13.6 The Council has given a number of warranties for up to 35 years from 30th October 2006 in respect of environmental pollution, asbestos, statements, title, encumbrances, planning matters, statutory obligations, adverse orders, tenancies, information and statistics supplied, sales off, disputes and litigation, rights of entry to maintain and repair, absence of adverse replies, electricity sub-stations and shop leases, leasehold property, wayleaves, telecommunications and works undertaken.

Collateral warranty by the Council in favour of One Vision Housing Limited

- 13.7 The Council has given a number of warranties for up to 20 years from 30th October 2006 in respect of environmental pollution, asbestos, statements, title, encumbrances, planning matters, statutory obligations, adverse orders, tenancies, information and statistics supplied, sales off, disputes and litigation, rights of entry to maintain and repair, absence of adverse replies, electricity sub-stations and shop leases, leasehold property, wayleaves, telecommunications and works undertaken.

- 13.8 Contamination Costs: During 2011/2012, it was identified there was a site in the Borough that was contaminated and there would be significant costs associated with clearing the contamination. Sefton has an Earmarked Reserve of £1.380m to cover potential costs associated with clearing the contamination. There is a potential further liability if the costs of clearing the contamination are greater than currently envisaged.

- 13.9 Merseyside Pension Fund - Contractor Admission Bodies: The Council provides guarantees for any potential unfunded liabilities on the Merseyside Pension Fund for Sefton New Directions Limited and Agilisys Limited. The most recently notified value of the guarantees was nil for Sefton New Directions Limited and £1.077m for Agilisys Limited. The values are highly dependent on market conditions at the time of the valuation and can vary significantly between valuations.

14 Revenue Budget Implications

- 14.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget *	2027/28 budget
Financing costs (£m)	12.885	15.071	17.545	18.718	19.991
Proportion of net revenue	5.3%	6.1%	6.5%	6.7%	6.9%

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- 14.2 Further details on the revenue implications of capital expenditure can be found within the Budget Report.
- 14.3 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Executive Director of Corporate Services and Commercial is satisfied that the proposed capital programme is prudent, affordable and sustainable. Further details can be found within the Robustness Report.

15 Risk Management

- 15.1 Risk management across the Council is kept under review by the Chief Internal Auditor. A corporate risk register is in place, as are service area risk registers. Operational, project and transformation risk registers have also been developed.
- 15.2 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.
- 15.3 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.
- 15.4 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.
- 15.5 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.

16 Knowledge and Skills

- 16.1 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 the Vision 2030 / Corporate Plan.
- 16.2 There is commercial expertise across the Executive Leadership Team and Senior Leadership Board and a commercial approach is being embedded across the organisation.
- 16.3 Recent changes to the senior management structure have been made to better meet the resource requirements to support the Vision 2030 and the Corporate Plan going forward.
- 16.4 Support services, including Finance, Legal, Property and Business Intelligence and Commissioning, are regularly reviewed with a focus on providing the right support and

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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. Use is made of external advisors and consultants that are experts in their field where appropriate.

- 16.5 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.
- 16.6 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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Robustness of the 2025/26 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25

Date of meeting:	11 February 2025		
	13 February 2025		
	27 February 2025		
Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)		
	Cabinet		
	Council		
Report of:	Executive Director of Corporate Services and Commercial		
Portfolio:	Corporate Services		
Wards affected:	All wards		
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 2025/26.

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1. The Rationale and Evidence for the Recommendations

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

Current Context

- 2.1 The Budget for 2025/26 has been developed over the last nine months and builds on the Three-Year Medium-Term Financial Plan that was approved by Budget Council in February 2024, and which was then updated in November 2024 following the first Budget Statement of the new government.
- 2.2 This three-year plan then took account of the central government policy statement that was released on 28 November 2024 and the provisional local government finance settlement that was released on 18 December 2024.
- 2.3 The starting position of any budget is always to take account of what is happening in the current year and as at the end of November 2024, the Council is reporting a net overspend of £17.8m on its General Fund (excluding mitigations) which is made up of the following three areas: -
 - Pressure on its Education Travel Support budget.
 - Pressure in Adult Social Care; and
 - Pressure in Children's Social Care.
- 2.4 The most significant pressure has arisen within the Children's Social Care budget. A new staffing structure was approved by members and has now been implemented, however expensive agency staff have been required to remain in place during implementation and to cover vacancies due to the structure being larger than the previous arrangement. The largest pressure however has come from the residential placement budget. The budget for 2024/25, again based on aligning the MTFP with the Service's Improvement Plan and advice from the Service, was based on the number of residential placements reducing from 80 to 65. The actual position is that numbers have increased to 92, a difference to the budget of 27 placements. With an average cost of nearly £6,000 per annum, which is currently increasing, this has led to a pressure of £6.9m. From work undertaken across the Merseyside and Greater Manchester regions to provide information in advance of the Autumn Budget Statement, it is clear that for all councils the financial pressure within children's services is acute for these reasons and therefore this is key for budget setting for 2025/26.
- 2.5 In addition, Adult Social Care has experienced significant budget pressures in 2024/25 due to increased demand, increased costs, etc. This is also a national issue facing most local authorities with responsibility for social care, with the Council addressing this issue through its Transformation Programme project "Better at Home".
- 2.6 Similarly, the pressure in respect of Education Travel Support reflects the demand increase in Education Excellence arising from SEND and again is another national issue as reflected in the responses to the consultation on the local government finance settlement.

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- 2.7 All remaining services within the council are reported balanced budget positions. The process for budget setting continues to be reviewed to ensure it is robust and estimates especially in respect of demand led budgets reflect both experience in the sector and are signed off by the respective Executive Directors as that is where the expertise, ownership and accountability lies.
- 2.8 Members will recall that for 2024/25 a full review of the Council's reserves strategy was undertaken. This resulted in a revised assessment of the required level of General Fund Balances being required, together with approval of the principles that should be followed. As a result, General Balances were increased from £16m to £30m, with a commitment to increase these further over the next three years to support financial sustainability- this level and approach was benchmarked against other good councils and also reflected the low level of Earmarked Reserves held by the Council.
- 2.9 With the forecast level of overspend of £17.8m in 2024/25, a remedial plan has been put in place that will deliver a contribution of £5.5m from a review and repurposing of Earmarked Reserves, however this means there will be a call on General Balances of £12.3m in the year. This report will discuss the impact of this and the three-year strategy to increase the balances held.
- 2.10 With a new government being in place from July 2024, there was clearly going to be a change in approach to the funding that would be made available to councils for 2025/26. As stated, the Autumn Budget Statement in November 2024 provided an initial assessment of the funding that would be available to the sector, with further detail being provided in the policy statement of 28 November 2024. This has aided financial planning over the last 3-4 months with the Local Government Finance Settlement released on 18 December 2024 providing the detail of the funding that will be available to the Council, with this reflected in the budget report.
- 2.11 It has been widely reported during the last year that there are a number of councils struggling with financial viability and sustainability, with 19 councils as at November 2024 being in receipt of exceptional financial support from central government, and that number expecting to increase in the coming months. As reported last year, this increased number now reflects councils who, rather than being in distress due to investment activity, cannot meet in year costs or set balanced budgets that will provide core services due to increased cost and demand. Over the last decade the fact that funding has not aligned to this cost or demand means councils have been using increased levels of reserves and balances to not only set budgets but also meet in year financial pressure, thus reducing resilience and compromising financial sustainability. These issues reflect a lack of resources within the sector as opposed to poor financial management, as reported by both the Local Government Association (LGA) and the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.12 In advance of the Autumn Statement, the LGA submitted to government its informed assessment that substantial additional investment was required in the following areas in order to provide the required services to residents and also maintain financial sustainability in the sector: -
- Children's Social Care.
 - Adults Social Care.
 - SEND.
 - High Needs Deficit; and
 - Homelessness.
- 2.13 For Sefton, it can identify with each of these pressures, and they are each a feature of the budget report that is on this agenda. The pressure from each of these areas is substantial

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and further re-enforces the need for the Council to replenish its General Balances that have been used over the last three years in order to increase financial resilience and also provide protection against any financial shocks that may arise.

Development of Core Council Budget

2.14 In developing the core Council budget due consideration has been given to the following: -

- Engagement and ownership of the budget and its planning by the Council's Executive Leadership Team and Strategic Leadership Board.
- Ongoing financial pressure from 2024/25 that will continue in 2025/26.
- Additional required budget growth driven by demand and inflation that is required in key services.
- The funding that will be made available to the Council via central government as detailed in the Local Government Finance Settlement, in addition to that which can be raised through Council Tax.
- The deliverability of previously approved budget / savings proposals and those arising from the Transformation programme that are required in order that a balanced budget can be set; and
- The level of Earmarked Reserves and General Balances that the Council should hold.

2.15 To enable the development of a budget package for Member approval, continual budget sessions have been held with all Executive Directors. This has focussed on:

- Review of current in year budget position and future years' impact.
- Potential financial pressure for 2025/26 to 2027/28 from demand or cost increases; and
- Savings proposals to support budget development.

This engagement has proven to be valuable with each budget assumption for 2025/26 in the budget report being signed off via this process.

2.16 In respect of Children's Social Care, Members will recall that a five-year improvement plan was developed to align with the services improvement plan. Throughout the year, the Executive Director of Children's Social Care and Education (Director of Children's Services), Chief Executive, s151 Officer, Deputy s151 Officer and Head of HR and Workforce have met monthly, and bi-monthly with the relevant Cabinet Members, to track progress on the budget, review assumptions, provide advice and support and take decisions that align with the improvement plan - the outcome from those sessions is reflected in this budget package and the proposed in-year budget has been signed off as deliverable by the Executive Director. As stated earlier, the key element within this is the residential budget.

2.17 In the current year, it was advised that the number of residential placements would reduce from 80 to 65, this was reflected in the budget realignment that took place for the year and the fact that an element of the new staffing structure would also be supported by funding that would be released- with the current number of children in residential placements being 92, detailed work has been undertaken to develop the estimate for 2025/26. From this work the following principles have been set out by the DCS and are reflected in the budget presented:

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- The number of children placed in a residential care setting will reduce as children who turn 18 aren't replaced.
- Other children who move from residential care into another care setting are replaced.
- The number of Unaccompanied Asylum Seeker Children in residential care will increase across the year.

2.18 In respect of Adult Social Care, this is a gross budget of £192m in 2024/25 and is increasingly complex- as with Children's services monthly budget sessions are held between the Executive Director of Adult Social Care, Health and Wellbeing, the Chief Executive, s151 Officer and Deputy s151 Officer to review in granular detail, in year pressure, delivery of savings, emerging pressure, work required to inform potential provider fee increases for 2025/26 and further additional demand- the outcome of those sessions is reflected in this budget package and the proposed in-year budget has been signed off as deliverable by the Executive Director. Within this, the two key issues are in respect of demand and increase in provider fees. The detailed work undertaken by the Service is reflected in this budget and it is essential that the delivery of these assumptions takes place.

Provision of £7.7m has been built into the budget for 2025/26 to fund increases in provider fees- this would equate to an average 6% increase and would mean that all of the Adult Social Care Precept and 70% of the additional Social Care Grant (that is provided to support Adult Social Care and Children's Social Care) would be allocated to this. The current budget pressure from 2024/25 is £6.3m. Part of this pressure relates to the forecast underachievement of savings approved for 2024/25 of £1.9m and the non-achievement of proposed mitigations relating to Supported Living of £0.7m. The assumption is that these savings will be achieved in 2025/26 so that the residual budget pressure needing to be met will be £3.7m – this has been built into the budget for 2025/26. The service is also making £2.6m of savings in 2025/26 and this will support investment in staff and funding of other parts of the service, e.g., pay award etc.

2.19 A similar process has been undertaken in respect of Education Excellence and SEND- the demand pressure in this area has increased substantially each year and is reflected in financial pressure in respect of Education Travel Support, additional staff being required to process EHCP's and an increase in the High Needs Deficit. The budget assumptions in respect of this Service have been the focus of stringent review and the proposed in-year budget has been signed off as deliverable by the relevant Assistant Director which takes account of increased cost and demand and the impact of a new approach in service delivery that will offset some of this financial pressure. However, further work will be required to deliver the Service's staffing budget within the resources available.

2.20 These three budgets reflect the greatest financial risk to the Council, not due to financial management arrangements but due to need, demand, volatility and potential cost increases. Every effort has been made to understand each of these for 2025/26 and if there are any variations these will need to be met with in-year remedial action plans across the Council. In addition, and as reported last year, it is essential that where decisions are within the control of officers, and have been reflected in the proposed budget, that they are adhered to, for example assumptions around staffing levels. As these budgets will account for nearly 75% of the Council's Net Cost of Services budget in 2025/26, if there are budget variances there is no scope for other services to meet these, hence financial discipline, informed budget and business decisions and financial awareness will be critical in this next year as there are no surplus resources available.

2.21 The outcome from this work throughout 2024/25 and the comprehensive review and updating of all existing budgets and Medium-Term Financial Plan assumptions is reflected in the budget report. It can be seen from this that a balanced budget cannot be met with the

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funding allocated by central government when added to the Council Tax options available to the Council. As such a set of budget savings proposals have been identified for approval in the Budget Report- as stated these have been signed off as being deliverable by Executive Leaders and the Strategic Leadership Board and the budget reflects that.

- 2.22 As occurs each year, in developing this budget, all Medium-Term Financial Plan assumptions have been reviewed and are considered prudent. However, there are some where the final sum is yet to be identified, for example in relation to the local government pay award - these will be monitored, and any variation reported to Members in due course. With the prevailing economic conditions, the volatility that exists within the budget for next year cannot be underestimated, especially as additional central government financial support for 2025/26 does not reflect the full implications of the growth pressure nor inflation requirement facing the Council. As a result, the budget will need proactive management to contain expenditure within the approved levels.
- 2.23 Members will recall that in terms of understanding the pressure from the current year that will require funding in the new financial year a position is taken as at the end of November. This position may vary between the time of establishing the budget and year-end, especially in respect of Adult Social Care and Children's Social Care.
- 2.24 For 2025/26, the Council has received a one-year financial settlement with the new government detailing that following a review of the local government finance system a three-year settlement will follow that will cover 2026/27 to 2028/29. The Council returned to multi-year budgeting from 2024/25, and future three-year settlements will support this and enable service delivery and financial stability, resilience planning and management.
- 2.25 As can be illustrated in this section of the report, the budget has been developed by the Executive Leadership which supports the objective of ensuring that the budget presented for Member approval is both robust and has ownership.

Maintaining Service Delivery

- 2.26 As has been reported extensively both within the sector and within Sefton, the scale of the budget shortfall and the demand and cost increases that the Council has faced over the last fourteen years 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 2025/26, the key challenge faced by the Council will once again be in respect of its demand led budgets, especially Children's Social Care, Adult Social Care and Education Travel Support. Substantial budget growth to reflect the view of what funding is required to deliver these services and the ongoing pressure being faced has gone into each of these areas for next year and as they make up the largest part of the Council's budget it is critical that these services are managed within the resources available.
- 2.27 As with previous years, as a result of this prioritisation, all other remaining Council services are not receiving growth, inflation on core contracts and budgets, with some required to deliver savings. As a result, the pressure in these areas both operationally and financially will increase and again will require robust financial management and reporting to deliver services within the resources available.

Inflation and Annual Cost Increases

- 2.28 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

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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 some ICT contracts- the cost of the Council's major ICT systems has increased significantly in recent years and cannot be contained within existing budgets.

Financial Management

- 2.29 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 and Executive Leadership Team and Cabinet. Overview and Scrutiny Committee also have a standing agenda item in respect of capital and revenue budget monitoring, with Cabinet and Council both receiving the annual Medium Term Financial Plan.
- 2.30 To support this approach, a continual training offer is available to all budget holders, schemes of financial delegation for each service are reviewed and where appropriate updated on a quarterly basis. The Council's Financial Procedure Rules were last updated and approved by Council in January 2025 following review by Audit and Governance Committee.
- 2.31 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 economic conditions within the UK 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.
- 2.32 In order to manage these risks and objectives, the Executive and Senior Leadership Teams and Members will need to monitor each element of the Council's budget and demand for services forensically, take decisions in accordance with the budget plan 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, but especially in Children's Services and Adult Social Care, 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. During 2024/25 additional senior financial management capacity was added to the Adult Social Care, Children's Social Care and Education Excellence teams to support this.

Medium Term Budget Planning and Transformation Programme

- 2.33 During 2024/25 the Council has approved a new refreshed Corporate Plan and a new Performance Management Framework. In addition, a new transformation programme has been developed, with financial sustainability at its core- the intention is that the programmes and projects within this will deliver financial sustainability and resilience to the Council with investment and savings deriving from this. The core elements of the programme are:-

- Better outcomes, sustainable services - Services for Children, Adult Social Care Better at Home, Social Housing, Cleaner Greener Borough;
- Growth - redefining Place
- Setting us up to Succeed - Corporate Landlord, Public Service Reform, Performance, Commissioning and Contract Management; and
- Everyday excellence- services a

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CIPFA Financial Resilience Index and the CIPFA Financial Management Code

- 2.34 The financial risks facing the Council in 2025/26 and beyond have been set out within this report and the wider Budget Report and as would be expected after the last decade of underfunding and with the increased demand and cost of Council services, the severity of these risks continues to rise. This is similar for most local authorities.
- 2.35 Over recent 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.

CIPFA Financial Resilience Index

- 2.36 CIPFA developed its Financial Resilience Index and is intended to assist local authorities by identifying various indicators of potential financial stress for the organisation. As reported in previous years, there are 15 indicators which are compared to other local authorities - seven of these indicators relate to the level of reserves and balances held compared to net revenue expenditure, three relate to the proportion of expenditure on high-risk services (e.g., Adult and Children's Social Care) and five 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 2023/24. Therefore, the comments below relate to the position as at the end of 2022/23 published at the beginning of 2024.
- 2.38 When compared to other metropolitan district councils Sefton is classed as a medium risk (this being a relative conclusion when the overall financial environment within which the Council is operating is considered) in relation to its budget flexibility, i.e., the proportion of its budget spent on high-risk services, where the ability to reduce overall expenditure on these services is less due to rising demand, is average compared to other local authorities. However, this is based on 2022/23 and there has been significant additional investment in the service since then and there are still significant challenges with Children's Social Care and the delivery of the improvement plan is critical. In addition, Adult Social Care is classed as medium risk compared to other local authorities which further limits budget flexibility.
- 2.39 Sefton compares favourably when compared to other metropolitan councils in that it is relatively less reliant on grant income and more reliant on Council Tax income as an overall percentage of its funding.
- 2.40 The Index shows that Sefton is at a higher risk of financial stress due to its level of reserves and balances at the end of 2022/23 being relatively low in comparison to other metropolitan councils. However, there has been additional investment in 2024/25 to address this which is considered benchmarking and learning from good councils. The index shows that the direction of travel over the previous three years, including an increase in General Balances, is positive. Unallocated General Balances are classed as medium risk whereas Earmarked Reserves are classed as high risk compared to other metropolitan councils. Therefore, it is important that an appropriate level of reserves is maintained to mitigate against this risk in line with the Reserves Strategy as detailed later in this report.

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- 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.
- 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 completes an annual self-assessment of compliance with the Code that includes 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 the most recent review was presented to Audit and Governance Committee in June 2024 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 is available for consideration by the external auditor as part of their value for money assessment.

Management of Risk

- 2.44 The Council manages risk on an ongoing basis at all levels of the organisation. In doing so it has developed policies, processes and systems that reflect its internal governance arrangements and the constitution, these include Financial Procedure Rules, Contract Procedure Rules, and clear guidance on when professional advice should be sought, e.g., with regard to contracts. As far as possible this allows the Council to anticipate risks as they emerge. These processes are supported by the Council's Internal Audit and Risk Section, the annual review of Corporate Governance and the completion of the Annual Governance Statement.
- 2.45 Given these controls and processes, the likelihood of unanticipated budget issues has been reduced as far as possible, however as outlined in this document and the budget report, the financial risks facing the Council both in this year and future years continue to increase, especially as a result of the demand for core services where financial control of expenditure is sometimes limited. This is particularly the case for Children's Services and Adult Social Care. In the event that these have a material impact on the Council's budget, a remedial action plan will be required in year- this is becoming increasingly difficult to deliver therefore the role of Members in taking efficient and effective decisions informed by officer proposals will be key.
- 2.46 The Council, in addition to its monthly reporting process, now has an embedded process whereby it conducts, first quarter, mid-year and three-quarter year performance reviews that bring together finance, performance and risk information as set out in the performance management framework. 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

- 2.47 As part of the reform process of local government finance, the Council now receives a modest level of capital grant to support investment. This budget provides for the utilisation of this funding in 2025/26 and an indicative plan for future years.
- 2.48 The Council, as stated previously, has identified that its growth workstream is key to supporting its 2030 vision and core purpose in addition to financial sustainability. With the

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reduction in capital resources that are available from central government, the Council will continue to explore opportunities and methods to generate funding to support these activities over the next 3-5 years. This approach is reflected in the budget report. The Council has been successful in gaining substantial central government funding via the Town Deal Fund for Southport and Levelling Up Programme for Bootle Town Centre / Strand. This provides the basis for investment to promote regeneration and will require proactive financial management due to the current financial environment- this focus will need to be on cost control, risk management, consideration of supply chain and understanding sensitivity analysis linked to inflation, cost and income streams in addition to ensuring that third party contributions to the planned capital works are secured. Both programmes have exposure to each of these to varying degrees and it is essential that the management arrangements have the right skill sets in to manage this. In addition, the Council must ensure sufficient capacity exists and all financial estimates are prudent and considered with Member reporting of any change undertaken in an expedient manner. In the event of any cost increase and where the funding available is not sufficient to meet this, then existing funding providers e.g. central government and the Liverpool City Region Combined Authority, will need to be engaged for additional support.

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

External Advice

- 2.50 The Council is supported in its financial activities by its External Auditor, Grant Thornton 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. Members will be aware that the value for money report from the previous auditor, Ernst and Young, has now been received by the Audit and Governance Committee for the years 2021/22 and 2022/23 and within this there was no concern as to the Council continuing to operate as a going concern and there was positive reporting of the approach to budget setting, financial management and financial reporting as referenced in this report.

3. RESERVES STRATEGY 2025/26

- 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 (General Balances) is the Council's primary reserve. It exists to provide the Council with a contingency against unexpected financial events or shocks which could otherwise undermine the Council's sound financial standing. General Balances should only be utilised to address short-term issues and should not be relied upon to finance ongoing budget deficits. As stated, if used in accordance with the governance arrangements approved at Budget Council in February 2024, reserves should be repaid and replenished in full in the next financial year.

- 3.3 Determining the level of General Fund Reserve forms a key part of the Council's medium-term financial strategy and is informed by an assessment of the risks presented by:
- State of the economy (and its impact on Council costs / funding).

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- Knowledge of future changes to the Council's responsibilities and funding allocations.
- The inherent risk around demand and cost increases and the previous year's call on reserves.
- Specific risks relating to the delivery or changes in Council services.

3.4 In considering the level of General Balances that should be held the Council needs to give due consideration to both its Earmarked and General Fund Reserves- within Sefton when compared to other councils and at an absolute level it does not have a significant amount of Earmarked Reserves (total of £16m forecast for 31 March 2025, with no amounts now potentially available following the anticipated use of nearly £6m to partially fund the 2024/25 overspend). For the 2024/25 budget the Council recognised that it would need to invest in its General Balances and approved investment of £14m, which took the value into the current year to £30.3m. This sum was benchmarked and considered appropriate with further investment planned for future years. This reflected the increased risk in the sector and low level of earmarked reserves.

National Considerations

3.5 Impact of economic climate on Council costs - the current climate within the sector and being experienced in Sefton due to increased demand for key services and cost pressure will prove challenging in 2025/26 with the potential for substantial cost increases for goods and services procured or commissioned by the Council especially in respect of social care. In addition, there is the probability of 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 Potential changes in Government funding – the level of funding that it is anticipated that the Council will receive in 2025/26 reflects the Local Government Finance Settlement finalised in early February 2025. In addition, the Council has been notified of other grant allocations for 2025/26. These funding levels are included in the Budget Plan. Funding levels beyond 2025/26 are currently unknown, however the new government has committed to a fundamental review of local government funding in 2025 that will inform the next three-year settlement from 2026/27 - it is hoped that the metrics used will direct more funding to Sefton, however there is the risk that funding in some areas could be reduced, especially if population is used as a factor- the Council's reserves strategy will need to take account of this despite transition arrangements being promised.

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 will be especially true in respect of Adult and Children's Social Care and Education Excellence in 2025/26. In addition, the Council's new Transformation Programme will propose significant changes as to how some services are provided. Combined, these 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 substantial short-term risk that needs to be allowed for.

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- 3.8 Impact of Rising Demand for Services – This is the biggest risk that the Council faces and despite the budget setting process being robust in previous years with all budget assumptions provided for and signed off by Executive Directors, this has been the reason that Earmarked Reserves and General Balances have been required to fund in year overspending when remedial plans cannot meet the balance. Investment has been included in these services in the 2025/26 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, Adult Social Care and Education Travel Support. Based on the financial position as at the end of November 2024, these budgets will be re-aligned for 2025/26 where appropriate.
- 3.9 Balance Sheet Risk- As reported to Cabinet, 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 2025/26 are underpinned by a number of assumptions regarding the prevailing rates of inflation, interest earned and cost growth. While these estimates are believed to be prudent some costs are outside the Council’s control, particularly in the medium-term.
- 3.11 Significant earmarked reserves – The Council maintains funding in Earmarked Reserves. These include 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 but as reported the Council holds a low level of Earmarked Reserves compared to most other councils thus placing more emphasis on General Balances. It should be noted that due to the forecast overspend position in 2024/25, a review of Earmarked Reserves will be undertaken and any reserves that do not come with a specific legal requirement to hold or are not grant funding with no flexibility for use, will be presented to Members for a decision on releasing to support the in-year position. It should also 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 budget – Given the funding uncertainty facing the Council, pending the reform of the local government funding system and the next three-year settlement, and the increased demand for Council services, the Council has developed a three-year Medium-Term Financial Plan and has set out its new Transformation Programme, with financial sustainability at its core. These will support the basis of the three-year budget plan that is presented in this meeting for decision.
- 3.14 Within last year’s Budget report it was stated that based on the risk facing the Council, that for 2024/25 the Council should seek to increase its General Balances to £30m which would be 11% of the 2024/25 net budget requirement. In addition, due to the increasing significant

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risks in the sector, and the low level of Earmarked Reserves, that General Balances will need to increase by at least £2m per annum.

3.15 As reported, within this financial year, £12.3m of balances will be required to be utilised to support the outturn position which will reduce available General Balances to £18.0m at the end of 2024/25. In light of the overall budget position and funding available to the Council, it will not be possible to replenish General Balances in full in 2025/26. A contribution of only £1.5m will be possible, funded from the Council Tax Surplus, meaning a balance of **£19.5m** will be in place from April 2025. Based on the risks facing the Council this sum is considered to be an adequate level to be retained for 2025/26, as it would be sufficient to cover two years of potential managed forecast overspends - however it substantially increases the financial sustainability risk facing the Council and overspending that has been experienced in recent years cannot be accommodated. It is still considered that the Council should have a level of General Balances of over £30m which increase year on year- the three-year Medium-Term Financial Plan sets out increases of General Balances to £30m and any additional resources received from future settlements should be used to increase these further. This position means that the budget proposed must be delivered in 2025/26 with no call on balances.

Earmarked Reserves

3.16 Unlike the General Fund Reserve, 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.

3.17 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.

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

	April 2024	Estimated 31 March 2025
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	£m	£m
<u>Earmarked Reserves</u>		
- Strategic Reserves	-7.693	-3.616
- Committed Reserves	-7.048	0.000
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	-1.575	-0.143
- Temporary Reserves	-16.364	-12.451
Total Earmarked Reserves per Statement of Accounts	-32.680	-16.210

- 3.19 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.
- 3.20 Of the 36 existing Earmarked Reserves (excluding unutilised grants and contributions), 19 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.
- 3.21 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.
- 3.22 Within these reserves the Council currently holds £0.877m (prior to any usage in 2024/25) to support the cost of school closures where a school transfers to academy status or closes with a financial deficit.
- 3.23 Similarly, the Council currently has a deficit within its High Needs Budget. This is estimated to be around £65m at the end of 2024/25 and is forecast to rise again in 2025/26 despite an increase in High Needs funding nationally of £1,000m (with the end of the statutory override currently due at the end of March 2026). Previously this deficit was held as a negative Earmarked Reserve. However, due to the Statutory Override it is now accounted for as an Unusable Reserve (DSG Adjustment Account). As this is a budget funded by the Dedicated Schools Grant (DSG), the clear guidance from both the Ministry of Housing, Communities and Local Government and the Department for Education has historically been that that the Council cannot use its General Fund to meet this cost or balance. The Government have stated they will review High Needs funding, including the Statutory Override, during 2025/26.

Capital Reserves

Capital Receipts Reserve:

- 3.24 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.
- 3.25 The nature of this Reserve determines that the balance will vary with the timing of the receipts and the Council's capital receipts are being used to fund. The

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balance at the end of 2024/25, and therefore the opening balance for 2025/26 is estimated to be in the region of £12m.

Unapplied Capital Grants and Contributions Reserve:

- 3.26 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 2024/25 is estimated to be £51m. 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

- 3.27 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.
- 3.28 With the funding of schools over the last decade being insufficient, the financial pressure on schools is ever increasing and this reduction is expected to accelerate. The Council has clear financial procedures for schools, that reflects that annual budgets should be set within agreed resources available and sustainable three-year plans should also be approved. Any school that doesn't meet these requirements has to seek approval for a licensed deficit with a view to returning to a balanced position. This will require careful management by schools with support from the Council's finance team but there must be clarity around setting sustainable budgets each year so that the Council's position is protected. This is even more important as there continues to be a central government policy drive to move schools to academy status. This poses a significant financial risk to the Council both through the deficit position of some schools but also the scale of resources currently within the Council that support schools. This work has commenced with 18 schools converting to academy status in 2024/25 which means a loss of SLA income for services of £0.9m that is built into this budget.

4 Basis of Assurance

- 4.1 The key fundamental principles of the report's recommendations which the Executive Director – Corporate Services and Commercial has considered in giving this assurance are therefore: -
- That the budget strategy for 2025/26 is approved as set out in the report.
 - That all Services manage their finances within the clearly defined cash-limits approved as part of this budget and also the savings that are required to be delivered. Whilst the budget risk is recognised, Assistant and Executive Directors must bring forward options to mitigate any cost overruns in accordance with Financial Procedure Rules in order that formal decisions can be made where necessary.
 - That Council approves the updates to the Medium-Term Financial Strategy to 2027/28 and agrees to the proposals to manage a balanced budget in 2025/26; and
 - That the revised Reserves Strategy is approved which will see the General Fund Reserves Minimum Balance start at £19.5m and then increase by at least £5.4m over the subsequent two years (so will be £30.3m in 2027/28) with any funding received by the Council over what is reported in this budget reported also being used to replenish reserves where that funding is not ringfenced for a specific purpose. As the level of funding increases consideration will be given to further specific allocations to manage

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individual risks. The principle that will be in place in the Council is that any use of General Balances must be repaid in the following financial year where possible. In addition, General Balances are not to be called upon for further purposes save in exceptional circumstances with the agreement of the Leader of the Council, Cabinet Member for Corporate Services, Chief Executive and the Executive Director – Corporate Services and Customer (s151 officer) with any use to be approved in accordance with Financial Procedure Rules.

- 4.2 The reserves position will need to be kept under review to ensure that the Council maintains a robust budget and sound financial base.
- 4.3 As a result of considering the issues contained within this report, it is the view that the budget proposed is a robust budget package whilst also ensuring that there are adequate General Balances to draw on if the service estimates turn out to be insufficient. This opinion is provided in accordance with Section 25 of the Local Government Act 2003.

2. Financial Implications

Decisions taken as a consequence of this report will influence the Council's Revenue and Capital Budgets and Council Tax for 2025/26 and thereby shape the Council's financial plan for future years.

3. Legal Implications

The Council is required to set a Budget and Council Tax level on or before 10 March 2025 and must consider the comments of the Chief Financial Officer before that decision is taken.

4. Corporate Risk Implications

Financial sustainability and the risk posed by the High Needs deficit and Sandway Homes are included on the Council's corporate risk register that is reviewed each cycle by Audit and Governance committee.

5 Staffing HR Implications

There are HR implications from this assurance report.

6 Conclusion

The main body of the report provides for all information required.

Alternative Options Considered and Rejected

It is a statutory requirement to complete this report therefore there are no alternative options available.

Equality Implications:
None
Impact on Children and Young People:
The report highlights the current financial position relating to services provided for

Children and Young People

Climate Emergency Implications:

The allocations of capital funding outlined in the main 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.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Services and Commercial is the author of this report (FD.7940/25).

The Chief Legal and Democratic Officer (LD.6040/25) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

Implementation Date for the Decision:

Following the budget council meeting

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

Appendices:

There are no appendices to this report

Background Papers:

There are no background papers to this report

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Revenue and Capital Budget Plan 2025/26 – 2027/28 and Council Tax 2025/26

Date of meeting:	11 February 2025		
	13 February 2025		
	27 February 2025		
Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)		
	Cabinet		
	Council		
Report of:	Executive Director – Corporate Services and Commercial		
Portfolio:	Corporate Services		
Wards affected:	All		
Is this a key decision:	Yes	Included in Forward Plan:	Yes
Exempt/confidential report:	No		

Summary:

This report will provide Overview and Scrutiny, Cabinet and Council with:

- An assessment of the Council’s current financial position and approach to the 2025/26 Budget Plan and preparation for the additional two-year budget period 2026/27 to 2027/28.
- An update on the Government’s announcement of resources that are available to the Council for 2025/26.
- The Council’s current financial position and the assumptions built into the Medium-Term Financial Plan.
- The proposed Budget for 2025/26; and,
- The proposed Capital Programme for 2025/26 to 2027/28.

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.

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Recommendation(s):

Overview and Scrutiny is recommended to:

1. Note the update of the Medium-Term Financial Plan for the period 2025/26 to 2027/28; 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 2025/26 – 2027/28 and the Council Tax for 2025/26.

Cabinet is recommended to:

1. Note the update of the Medium-Term Financial Plan for the period 2025/26 to 2027/28.
2. Recommend to Council the Budget Plan for 2025/26, including the Revenue Budget, allocation of specific grants (section 13), and Capital Programme (Appendix D), and authorise officers to undertake the necessary actions to implement the recommendations.
3. Note the Schools' Forum decisions on the Dedicated Schools Grant and Individual School Budgets (Section 12).
4. Approve the application of the 2025/26 Dedicated Schools Grant funding for Schools; Early Years; High Needs and Central Schools Support agreed by the Schools' Forum (Section 12).
5. Approve that authority be delegated to the Head of Health and Wellbeing / Director of Public Health, in consultation with Cabinet Member for Health, Wellbeing and Inclusion, to formalise the agreement relating to the Drug and Alcohol Treatment & Recovery Improvement Grant, and to issue a contract variation to uplift the service contract in line with the Grant funding as per existing arrangements (Section 13).
6. Recommend to Council the approval of a supplementary capital estimate of £1.500m for the demolition of Vine House funded by prudential borrowing (Section 17).
7. Recommend to Council the approval of a supplementary capital estimate of £0.500m for Food Waste Management funded by prudential borrowing (Section 17).
8. Recommend to Council the approval of a supplementary capital estimate of £0.219m for Hawthorne Road Wash Bay and Additional Works funded by prudential borrowing (Section 17).
9. Recommend to Council the approval of a supplementary capital estimate of £4.277m for the Fleet Renewal Programme funded by prudential borrowing (Section 17).
10. Recommend to Council the approval of a supplementary capital estimate of £1.000m for Temporary Accommodation funded by prudential borrowing (Section 17).

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11. Recommend to Council the approval of a supplementary capital estimate of £4.200m for Disabled Facilities Grants funded by external grant from the Better Care Fund (Section 17).

Council is recommended to:

Budget 2025/26 and Medium-Term Financial Plan from 2026/27 to 2027/28

1. Note the update of the Medium-Term Financial Plan for the period 2025/26 to 2027/28.
2. Approve the Revenue Budget for 2025/26 and authorise officers to undertake all of the necessary actions to implement the budget changes and proposals as detailed within the report.
3. Approve the commencement of all appropriate activity required to implement the budget savings proposals as detailed in the report, including for example, consultation with employees and engagement with partners and contractual changes as the programme develops.
4. Note that officers will comply with agreed HR policies and procedures including relevant consultation with Trade Unions and reports to the Cabinet Member (Regulatory, Compliance & Corporate Services) as required.
5. Note the Schools' Forum decisions on the Dedicated Schools Grant and Individual School Budgets (Section 12).
6. Approve the allocation of specific grants as detailed in the report (Section 13).
7. Subject to the recommendations above, approve the overall Council Tax resolution for 2025/26 including Police, Fire, Mayoral and Parish Precepts.

Capital Programme 2025/26 to 2027/28

8. Approve for inclusion within the Capital Programme the full list of projects in Appendix D.
9. Approve a supplementary capital estimate of £1.500m for the demolition of Vine House funded by prudential borrowing (Section 17).
10. Approve a supplementary capital estimate of £0.500m for Food Waste Management funded by prudential borrowing (Section 17).
11. Approve a supplementary capital estimate of £0.219m for Hawthorne Road Wash Bay and Additional Works funded by prudential borrowing (Section 17).
12. Approve a supplementary capital estimate of £4.277m for the Fleet Renewal Programme funded by prudential borrowing (Section 17).
13. Approve a supplementary capital estimate of £1.000m for Temporary Accommodation funded by prudential borrowing (Section 17).
14. Approve a supplementary capital estimate of £4.200m for Disabled Facilities Grants funded by external grant from the Better Care Fund (Section 17).

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1. The Rationale and Evidence for the Recommendations

The recommendations in this report provide the basis on which the Budget Plan will be balanced for the financial year 2025/26 and will ensure that the Council's statutory obligations are met. In addition, it begins the planning for the financial strategy for the following two years to give the Council sufficient time to identify specific proposals to deliver financial sustainability over that period.

1. Introduction

- 1.1 This report provides Members with an update on the overall financial position of the Council. In doing so it refreshes the Medium-Term Financial Plan (2025/26 to 2027/28) previously approved by Members in November 2024, taking account of the Autumn Budget Statement, the Local Government Finance Settlement and the latest information available to the Council.
- 1.2 The new national government has announced a one-year funding settlement for local government for 2025/26, with the intention to start consultation on the reform of the overall funding model for local government in 2025, that will lead to a three-year financial settlement for the period 2026/27 to 2028/29. As such there is certainty around the funding that will be available for the next financial year with estimates that will be the subject of change made for subsequent years. The three-year budget plan presented for the Council updates for these initial estimates for the overall period and in doing so the report presents the proposed budget for 2025/26.
- 1.3 In addition, Individual School Budgets and the Capital Programme require approval and details of this are within this report.

2. The National Context and financial environment

- 2.1. The new Labour government was elected in July 2024 and provided for a budget in the autumn of 2024. This set out some core principles and funding levels that would be made available to the public sector and local government. This followed 14 years of initial austerity and then a most challenging environment for local government.
- 2.2. This was followed by a funding policy statement for local government at the end of November 2024 and then the provisional local government finance settlement on the 18 December 2024. Whilst this pathway and timeline is consistent with previous years, the approach and content were very different. The new government announced that the settlement received would be for one year only for 2025/26 pending a comprehensive review of the local government funding process, with consultation on this starting in 2025 and culminating in a three-year settlement being provided for 2026/27 to 2028/29.
- 2.3. The government announced the settlement for 2025/26 as being the first step forward for the sector following the previous 14 years and outlined that a simpler model would be provided. Critically the government stated that in providing additional resources to the sector, these would be targeted at those councils in greatest need due to deprivation, evidenced need, previous funding cuts / allocations and those who have low tax bases.

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- 2.4. Within the sector, and as previously reported, a number of councils due to the well documented funding issues of the last decade are in financial difficulty, arising from the ability to meet in year pressure or set robust, deliverable budgets- as at November 2024 there were 19 councils in receipt of exceptional financial support from central government with more expected to follow.
- 2.5. This situation reflects historic underfunding at a time when demand and cost for key services such as Children's Social Care, Adult Social Care and Education Excellence has risen substantially and far beyond annual funding increases.
- 2.6. As stated, within the funding settlement for 2025/26 the government has signalled the start of a review process but there is a long way to go for the sector to be on a sound financial footing and the risk facing all councils has not diminished. It is acknowledged that the sector is in need of fundamental reform and significant additional funding, that a programme of prevention is required to reduce demand and that further problems will be experienced by councils, most of which will need to make substantial savings in 2025/26.

3. Budget Development in Sefton and Key Risks

- 3.1. Members of Cabinet and Council received and approved the Council's Medium-Term Financial Plan in November 2024. This provided estimates of the funding that could potentially be made available to the Council over the period 2025/26 to 2027/28. As discussed in section 2, the financial environment that all councils are operating in is extremely challenging with key decisions on service delivery being required to ensure financial sustainability can be delivered.
- 3.2. Since 2010, one of the strengths of Sefton's financial management has been to understand that financial environment and then make the tough decisions that are required to support delivery of the 2030 vision, Core Purpose / Corporate Plan including council tax increases. In this environment that approach will need to continue.
- 3.3. This will be the case for 2025/26. The current year has seen a forecast year-end overspend of £17.8m being reported (before mitigations), driven by increased need, demand and cost in Children's Social Care, Adult Social Care and Education Excellence via Education Travel Support costs. The impact on the 2025/26 budget is that £11.6m will be required to be added to the budget gap due to these issues and is the first call on resources. This is clearly a significant issue that makes budget setting, and then the delivery of that budget, much more difficult with no room for political choice or flexibility and a requirement to deliver. This is compounded as the pressure, volatility and unpredictability in these areas makes financial planning more difficult and thus increases the financial risk.
- 3.4. Within each of these budgets, work has been undertaken to understand the drivers of need, demand and cost increase and all are key projects within the Council Transformation Plan. As such, within this budget package and this report, detailed savings and proposals to mitigate demand and cost are proposed and these will require expedient delivery, monitoring, control and grip to deliver the required outcomes and this budget package. Failure to do so will compromise financial sustainability.
- 3.5. As stated, the new government has adopted a new approach to the funding of the sector for 2025/26 and although a direction of travel was outlined in November 2024, it wasn't until the provisional settlement was received on 18 December 2024 that the Council had a firm idea of the funding that would be available through new allocation formulae and principles. From this new allocation basis Sefton has received a favourable outcome compared to

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what would have been experienced previously, with increased weighting being given to deprivation, need, previous grant reductions and the Council's relatively low tax base.

- 3.6. Despite this position, the Council has a residual funding gap before any council tax increases of £45.3m between 2025/26 and 2027/28, and after potential council tax increases of £18.5m across the three years, with £5.6m in 2025/26. Savings options to bridge the gap in 2025/26 (and partially meet the gaps in 2026/27 and 2027/28) are therefore proposed, with some of these having previously been approved and some arising from the Transformation Programme. These, together with cost mitigating proposals, will be monitored each month and reported as part of the regular budget monitoring process to Cabinet and Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services).
- 3.7. The financial risk being faced by councils and Sefton cannot be underestimated. Within the Council, through extensive dialogue led by the Chief Executive and s151 officer with the relevant Executive Directors, the demand and cost pressure on these core budgets has been evaluated and translated into this budget package alongside the proposed outcomes from service transformation. These are the best and most robust estimates available and have been signed off as deliverable by those Executive Directors but as stated there is substantial volatility in the sector that could impact these.
- 3.8. This position is made more severe for the Council as it will have to use an estimated £10m of General Balances in 2024/25 on these same budgets. Within the three-year plan there is a remedial plan to replenish these General Balances as it is not possible to do this in one year, therefore the capacity to support current year overspending is not there and must be avoided, hence the focus needing to be on delivering this budget package in full.
- 3.9. During 2024/25 the Council approved a refreshed Corporate Plan, Corporate Performance Framework and Transformation Programme. This budget reflects the ambition in those programmes, with one of the key stated aims of the Transformation Programme being to deliver financial sustainability to the Council. The Corporate Plan is shown below at figure 1 with the Transformation Programme being shown at figure 2.

Figure 1: Council Corporate Plan

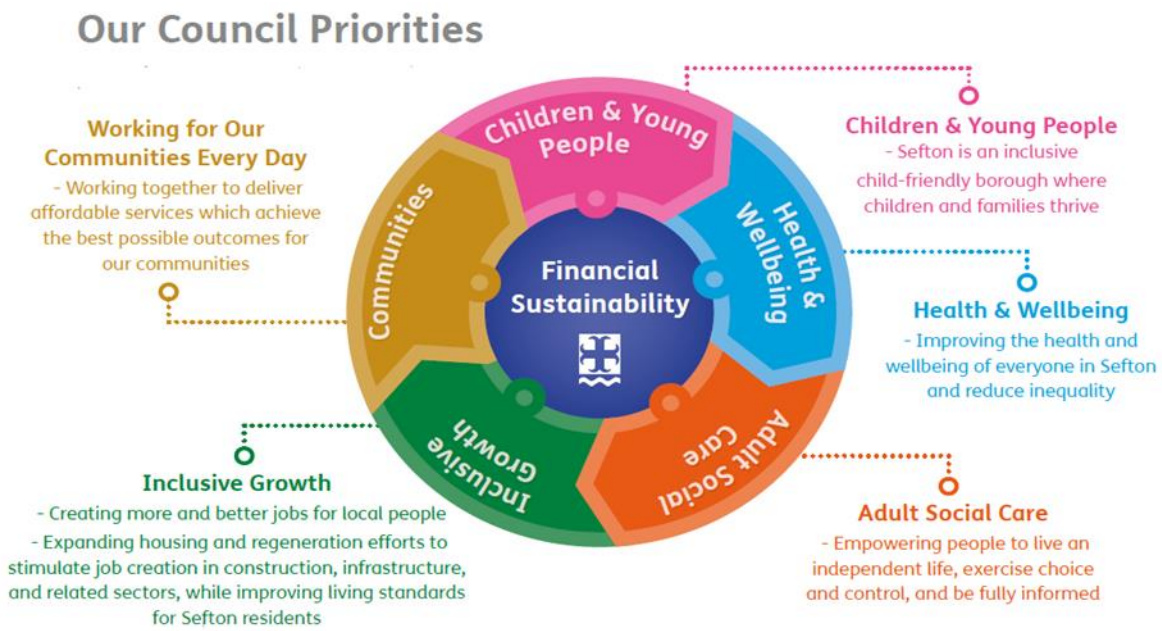
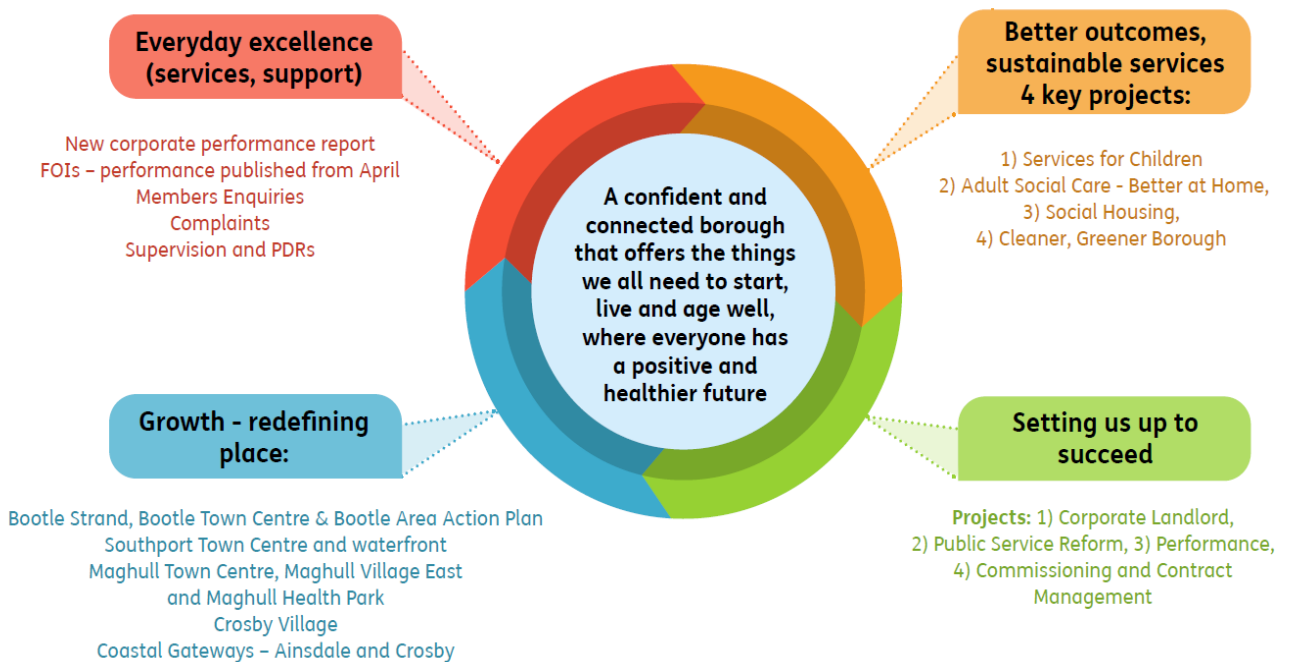


Figure 2: Council Transformation Programme



4. Budget Plan 2025/26 – 2027/28

4.1 Council, on 14 November 2024, approved an updated Medium-Term Financial Plan (MTFP) for the period 2025/26 – 2027/28, including the assumptions made.

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

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- The initial key MTFP assumptions including non-recurring savings.
- Other MTFP changes.
- Impact of Budget Decisions in Previous Years
- The implications of the Provisional Local Government Finance Settlement for 2025/26.
- Growth Items,
- Savings proposals to balance the 2025/26 budget, and,
- Issues currently considered to be temporary / one-off in nature which will be funded from temporary resources.

4.3 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

4.4 Within this MTFP, there are a number of initial key assumptions that will impact upon the funding gap facing the Council in the period 2025/26 to 2027/28 as well as a number of other budget changes. These reflect the information included in the updated MTFP reported to Council on 14 November 2024, some of which have been revised to reflect the latest information available. These are set out as follows:

Pay Award Provisions

4.5 Given the current rates of inflation, it is considered prudent to increase the pay award provisions for 2025/26, 2026/27 and 2027/28 compared to usual assumptions. Therefore, **£3.600m** has been included for each year, equating to an approximate increase in the region of 3%.

4.6 It should be noted that all of the above figures are net of pay costs that are externally funded, as well as costs of services that are provided on behalf of schools, e.g., building cleaning and catering.

Resources to fund increases in the Pension Future Service Rate

4.7 In line with previous MTFPs, the Council makes provision for the estimated costs of annual increases in contributions to the Merseyside Pension Fund relating to increases in the Future Service Rate. Provisions for this total **£0.600m** per year. However, it should be noted that the latest triennial valuation of the Fund took effect from April 2023 and resulted in a saving of £0.700m in 2023/24, 2024/25 and 2025/26. The implications of this saving are included within the "Impact of Budget Decisions in Previous Years" below.

Resources to fund increases in Specific Contracts

4.8 In line with previous MTFPs, the Council makes provision for the estimated costs of annual increases in certain contracts which have specific inflationary increases included within the contract. Given the current levels of inflation, it is estimated that a provision of **£0.100m** will be required in each year.

In addition, the Council's ICT contracts have increased significantly in recently years, with many linked to increases above the CPI rate of inflation. Given the current levels of inflation, it is estimated that a provision of **£0.300m** will be required in each year.

Social Care – Provider Fee Increases

4.9 The Government has announced that the National Living Wage will increase significantly from April 2025, from £11.44 to £12.21 per hour. In addition, the Government has announced changes in employer National Insurance contributions from April 2025. It is therefore considered prudent to include net provisions of **£7.700m** in 2025/26 for the

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potential impact of increased fees from providers, reducing to **£5.500m** in 2026/27 and 2027/28.

- 4.10 In addition, it is estimated that providers of Children's Social Care will also increase fees next year, as well as increases in rates for foster carers, direct payments, etc. It is therefore considered prudent to include provisions of **£1.250m** in each year for the potential impact of increased fees from providers and increased rates for other types of Children's Social Care provision.
- 4.11 It is also proposed to make additional provision relating to inflation on the costs of providing Education Travel Support. Therefore, an additional **£0.300m** has been provided for in each of the three years.

Levy Increases

- 4.12 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. Sefton has received notifications of provisional figures for 2025/26, and these will increase the amounts to be paid by **£0.459m** in 2025/26. Provisions of **£1.300m** have been included for the potential costs of increases in these levies in 2026/27 and 2027/28.

Insurance Costs

- 4.13 The costs of insurance premiums have increased significantly in recent years. In addition, the costs of individual claims covered by the Council's Insurance Fund (e.g. relating to property claims) have also increased. This has meant that the contributions made annually into the Insurance Fund are no longer sufficient to cover the costs being incurred. Therefore, an additional annual provision of **£1.000m** is required to meet these costs. In addition, a one-off contribution of £1.100m is required to offset additional costs incurred up until 2024/25, which will be funded from one-off resources (see section 9).

External Audit Costs

- 4.14 Due to the well-publicised issues within the local government audit environment, the latest national commissioning exercise has resulted in a significant increase in fees payable to external auditors of all councils. This increase is non-negotiable, and whilst a small amount of additional funding has been provided to support the increase in costs, the additional impact on the Council will be **£0.225m** each year.

Energy Costs

- 4.15 As was reported in the 2024/25 Budget Report, the global increase in energy prices is having a significant impact on the Council's energy and fuel costs. This is currently estimated to have increased costs in 2024/25 by around £2.700m compared to previous years. This is being closely monitored as more information becomes available from the Council's framework providers on the fees being paid. It should be noted that this is a national issue affecting all local authorities. Therefore, the Council will continue to evaluate its usage in light of the substantial price increase.

- 4.16 It had previously been assumed that these increases would be temporary and would fall back to previous levels in 2025/26. Therefore, no permanent budget increases have previously been included in the budget, with the increased budget pressures being met from one-off resources. It is now assumed that at least some of this increased cost will be permanent. Therefore, an additional annual provision of **£1.000m** has been included in the budget to meet these costs. It is expected that costs in 2025/26 will be higher than this, although the potential additional costs are currently unknown, but it is currently assumed that these potential additional costs will be temporary, and costs will reduce further in 2026/27. These additional costs will therefore be funded from one-off resources. This

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assumption will continue to be reviewed and any increase in prices considered permanent will need to be built into future budgets.

Permanent Reduction of Sales, Fees and Charges Income

- 4.17 There was a significant impact on income from sales, fees and charges for a range of services during the pandemic. Whilst nearly all income streams have fully recovered, car parking income still hasn't returned to previous levels. It was previously assumed that these reductions would be temporary and would return to previous levels in 2025/26. It is now assumed that this reduction in car parking will be permanent, and it is currently forecast that this would result in a permanent reduction in income of **£0.500m** in 2025/26 and future years. This assumption will continue to be reviewed.

Impact of Academisation

- 4.18 There has been an increase recently in the number of local authority-maintained schools that have transferred to academy status. The Council has a number of traded services with schools, many of which will no longer be provided by the Council once schools transfer to an academy trust. The loss of income can't necessarily be offset by a reduction in costs from not providing the service.
- 4.19 In addition, the Council is able to charge the Dedicated Schools Grant for services provided to all schools. These include the School Improvement Service, support for schools in financial concern, ethnic minority support, etc. In addition, there are also contributions relating to the provision of statutory work from core services, including Finance, Human Resources and Health & Safety. As the number of maintained schools reduces so does the ability to charge the Dedicated Schools Grant for these services. However, in most cases there is less scope for the Council to reduce costs as the statutory work is still required, regardless of the number of maintained schools.
- 4.20 It is estimated that the net loss of income from academisation is **£0.690m** in 2025/26, with a further **£0.210m** from 2026/27. This will continue to be reviewed in light of further academisation and the potential to reduce costs.

Loss of investment income due to High Needs Deficit

- 4.21 As reported elsewhere in this report, the Council, along with the majority of local authorities, has a significant, and increasing, deficit on the High Needs block of the Dedicated Schools Grant (DSG). The Government have consistently said that this is a DSG issue. A statutory override is currently in place, until March 2026, which ensures that councils can't fund their High Needs deficit from its General Fund.
- 4.22 Whilst the deficit itself is a DSG issue, the Council needs to "fund" the cash implications of retaining this deficit. The Council has previously had significant cash balances as a result of the level of its usable reserves (e.g. Earmarked Reserves, Capital Grants and Contributions, etc.). This has allowed it to "internally borrow" (not take out borrowing to fund the Capital Programme) and earn investment income of surplus cash balances. However, the significant deficit has reduced cash balances, and also required the Council to take out additional borrowing to reverse some of previous "internal borrowing".
- 4.23 It is anticipated that the impact of these will result in an overspend of **£2.000m** on the Treasury Management budget in 2025/26. As mentioned, the statutory override is currently in place until March 2026. The Government have announced they will review all aspects of High Needs funding during 2025. It is therefore currently assumed that this review will result in a permanent solution to these issues from 2025/27 onwards so the impact on the Council's Treasury Management position will be temporary. This will continue to be assessed in light of the review, but provision may need to be built into future budgets.

National Insurance Employer Contributions

- 4.24 The Government have announced that Employer National Insurance Contributions will increase in April 2025 from 13.8% to 15.0%. In addition, the threshold at which employer contributions are paid will be reduced from £9,100 to £5,000. This will result in a significant increase in Employer National Insurance Contribution costs for the Council relating to directly employed staff. However, the Government have announced that additional funding will be provided to local authorities to offset these costs. An assessment will be made in 2025/26 of whether the additional funding covers all of the additional costs from the changes, with any potential shortfall being reported to Cabinet as part of the Council's monthly budget monitoring reports.

Contribution to General Balances

- 4.25 The 2024/25 Budget Report, and the 2024/25 Robustness Report, both approved by Budget Council in February 2025, outlined the higher level of risk due to the current financial pressure within local government nationally that is driven through Children's Services, Adult Social Care and Education Travel Support. It also highlighted that the Council's General Balances position at that time was lower than most similar local authorities. The budget package therefore included provision, through using other one-off resources, for increasing the Council's General Balance to around £30m.
- 4.26 As mentioned earlier in the report, the Council is forecasting an overall overspend of £17.8m in 2024/25 before the use / repurposing of Earmarked Reserves. It is forecast that a residual overspend of £12.3m will still need to be met from General Balances. This will reduce General Balances to around £18.0m at the end of 2024/25, significantly below the assessed prudent level of £30m.
- 4.27 The 2024/25 report stated that any use of General Balances in one year should be replenished in the following financial year. However, given the pressures on the overall budget position for 2025/26 it is not considered viable to increase General Balances from the Council's budget in 2025/26. Therefore, it is proposed to increase General Balances by £3.000m each year from 2026/27 onwards from the Council's budget. This will form part of an overall Reserves Strategy to increase General Balances to a more appropriate level. This overall Reserves Strategy is outlined further in Section 9.

Other MTFP Changes 2025/26 – 2027/28

Council Tax Base

- 4.28 The Council Tax Base is set by Council in January each year. It reflects changes, and forecast changes, in the number of properties, the value of exemptions and discounts and the assumed amount to be collected in the year. The Council Tax Base for 2025/26, approved in January 2025, will generate an additional **£1.735m** in the year. This includes the impact relating to charging an additional premium on "second homes". It has been assumed that there will be further growth in the Tax Base in future years that would generate **£0.500m** in 2026/27 and 2027/28.

Impact of Budget Decisions in Previous Years

Treasury Management Costs

- 4.29 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.

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2023 Local Government Pension Scheme Valuation

- 4.30 The 2023 valuation of the Merseyside Pension Fund set contributions that the Council were required to pay for the 2023/24 to 2025/26 period. Following a comprehensive review of the pension contributions following the triennial valuation savings of **£0.700m** will be achieved in 2025/26. The 2026 valuation of the Fund will set contribution levels for the 2026/27 to 2028/29 period. It is currently assumed that overall contribution levels will remain unchanged, resulting in a saving of **£0.600m** in 2026/27 and 2027/28 as the provision outlined in paragraph 4.7 won't be required.

Reduction in Unfunded Pension Increases

- 4.31 The Council budgets for the cost of making additional pension payments to certain employees (and teachers) who retired a number of years ago. The total payments are forecast to reduce by **£0.100m** in 2026/27 and 2027/28.

Initial MTFP Position 2024/25 to 2026/27

- 4.32 Based upon the revisions relating to MTFP assumptions it is estimated that the funding shortfall between 2025/26 and 2027/28 would be **£42.699m**, before any consideration of general government funding, existing service pressures and any other additional inflationary 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:

	2025/26	2026/27	2027/28
	£'m	£'m	£'m
Key MTFP updated assumptions:			
- Provision for Pay Inflation	3.600	3.600	3.600
- Provision for Pension Increases	0.600	0.600	0.600
- Provision for Inflation on Contracts	0.100	0.100	0.100
- Provision for ICT Contract Inflation	0.300	0.300	0.300
- Assumed increase in Care Provider costs re. Adult Social Care	7.700	5.500	5.500
- Assumed increase in Care Provider costs re. Children's Social Care	1.250	1.250	1.250
- Assumed increase in provider costs re. Education Travel Support	0.300	0.300	0.300
- Levy increases	0.459	1.350	1.350
- Increase in Insurance Fund contributions	1.000	0.000	0.000
- External Audit Costs	0.225	0.000	0.000
- Energy Costs	1.000	0.000	0.000
- Permanent Loss of Car Parking Income	0.500	0.000	0.000
- Academisation	0.690	0.210	0.000
- Loss of investment income due to High Needs Deficit	2.000	-2.000	0.000
- National Insurance Employer Contributions	0.000	0.000	0.000
- Contribution to General Balances	0.000	3.000	0.000
	19.724	14.210	13.000
Other MTFP Changes:			
- Council Tax Base	-1.735	-0.500	-0.500
	-1.735	-0.500	-0.500
Impact of Budget Decisions in Previous Years	-0.500	-0.500	-0.500
Initial MTFP Funding Gap – excluding Council Tax	17.489	13.210	12.000
Total Initial MTFP Funding Gap			42.699

5. Local Government Finance Settlement 2025/26

- 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 Adult 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 2025/26 was announced on 18 December 2024. This confirmed, and provided more detail on, funding announcements made in the 2024 Autumn Budget Statement, which was announced on 30 October 2024, and the Local Government Finance Policy Statement 2025/26, that was announced on 28 November 2024; these are detailed from paragraph 5.4.
- 5.3 As mentioned earlier, the new government announced that the settlement received would be for one year only for 2025/26 pending a comprehensive review of the local government funding process, with consultation on this starting in 2025 and culminating in a three-year settlement being provided for 2026/27 to 2028/29. Therefore, at this stage the Council has little information that would allow for some informed assumptions to be made relating to funding streams beyond 2025/26.

Social Care Grant

- 5.4 In 2021/22 the Government introduced a new funding stream, the Social Care Grant. By 2024/25, the Grant was worth £5,044m nationally which was partially distributed using the Adult Social Care Relative Needs Formula. Since the 2022/23 Settlement, whilst the majority of additional in-year funding was mainly distributed using the Adult Social Care Relative Needs Formula, the remaining element was 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 total allocation in 2024/25 was £35.241m.
- 5.5 The Provisional Settlement announced that an additional £880m of Social Care Grant would be paid to local authorities in 2025/26 using a similar allocation methodology as for 2024/25. However, a higher proportion of funding was allocated to equalise funding across authorities with lower council tax bases, which has increased Sefton's allocation. Sefton's total allocation of the additional funding is **£6.199m**.
- 5.6 In addition, as in recent years, local authorities have been given the power to raise Council Tax by a further 2% on top of the core principle as an Adult Social Care Precept in 2025/26. It should be noted that recent Government announcements on the additional funding being made available to local government in 2025/26 assume that all local authorities will increase Council Tax by the maximum amount. This is discussed further in section 10.

Adult Social Care Market Sustainability and Improvement Funding

- 5.7 The 2025/26 Settlement announced that the total funding of £1,050m allocated in 2024/25, would continue to be distributed in 2025/26 using the existing ASC Relative Needs Formula. Sefton's total allocation in 2024/25 was £6.671m and this will therefore continue to

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be received in 2025/26. It is assumed that the Market Sustainability and Improvement Funding will be ringfenced to within the Adult Social Care Budget as it has been in previous years. There will continue to be reporting requirements placed on this funding regarding performance and use of funding to support improvement against the funding objectives.

Adult Social Care Discharge Fund

- 5.8 The 2025/26 Settlement announced that the total funding of £500m allocated in 2024/25, would continue to be distributed in 2025/26 using the existing ASC Relative Needs Formula. Sefton's total allocation in 2024/25 was £3.675m and this will therefore continue to be received in 2025/26. It is assumed that the Adult Social Care Discharge Fund will be ringfenced to within the Adult Social Care Budget as it has been in previous years. It should be noted that the funding has from 2025/26 been included within the Improved Better Care Fund (now renamed the Local Authority Better Care Grant).

Services Grant

- 5.9 The 2022/23 Settlement provided details of a new Services Grant, worth £822m nationally, which was paid in 2022/23 to local authorities and was distributed based on the 2013/14 share of the Settlement Funding Assessment. By 2024/25 much of the Grant had been repurposed into other funding so had reduced to £87m. Sefton's allocation in 2024/25 was £0.453m.
- 5.10 The 2025/26 Settlement announced that the remaining overall funding would be fully repurposed into other grants. Sefton will therefore see a reduction in funding of **£0.453m**.

Recovery Grant

- 5.11 The Government announced a new one-year Recovery Grant worth £600m nationally. This Grant is targeted towards areas with greater need and demand for services and which are less able to fund their own services locally through Council Tax. The aim of this Grant is to address the 'inefficiency' in the current system and ensure councils in the most deprived areas on a more sustainable footing. Deprivation has been used as a proxy for need within the calculation of allocations. It should be noted that not all local authorities received an allocation of this Grant.
- 5.12 Sefton's allocation for 2025/26 is **£5.609m**. Whilst the funding has only been confirmed for 2025/26 it is anticipated that the funding will be rolled forward into the 2026/27 Settlement. As explained earlier in the report, the Government intends to review the Local Government Finance System during 2025/26 so the funding may be distributed using a new funding formula. However, for planning purposes it is assumed that Sefton will continue to receive the 2025/26 allocation going forward.

Children's Social Care Prevention Grant

- 5.13 The Government announced a new Children's Social Care Prevention Grant, worth £250m nationally. However, it has been stated that this will increase to £263m. This Grant is being distributed through a new children's needs-based formula which estimates need for children's social care services. Sefton's allocation for 2025/26 is anticipated to be **£1.219m**.

Extended Producer Responsibility for Packaging Funding

- 5.14 2025/26 will be the first year of the Extended Producer Responsibility for Packaging (pEPR) scheme. Income generated from the operation of the scheme will be passed on to local authorities, and recycling and waste authorities, and is designed to cover the existing costs local authorities incur for managing household packaging waste, as well as provide additional funding for new legal duties, including the introduction of food waste collections. The extra funding announced at the Autumn Budget includes a guarantee that local authorities in England will receive at least £1.1 billion in total in 2025/26 from the new

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Extended Producer Responsibility for packaging (pEPR) scheme, with each local authority guaranteed at least the level of income indicated in their provisional local payment allocations.

- 5.15 Sefton’s allocation for 2025/26 will be £4.137m. It is currently assumed that £1.500m of this additional funding will need to be utilised to offset the costs of introducing food waste collections. Therefore, **£2.637m** will be available in 2025/26 to offset the existing costs of collecting household packaging waste. Whilst the scheme will continue to generate income in 2026/27 and beyond, the level of funding local authorities will receive is not guaranteed. Therefore, it is currently assumed that the funding received will only cover the costs incurred in carrying out new legal duties, and there will be no funding available to fund existing costs of collecting household packaging waste.

Public Health Grant

- 5.16 The Council has yet to receive final details of the Public Health Grant for 2025/26. The Budget Savings / Mitigations outlined in Section 8 the 2025/26 include the assumption that that any additional Public Health Grant funding will be utilised to support public health and wellbeing within universal services in Children’s Social Care.

New Homes Bonus

- 5.17 The Government will continue to make payments of New Homes Bonus in 2025/26. As expected, the main grant allocations for 2024/25 will not continue. However, Sefton achieved the Government’s threshold for main payments for 2025/26 and will receive £1.408m. This is an increase of **£1.265m** on the amount received in 2024/25.
- 5.18 It is currently assumed that this additional New Homes Bonus won’t be received from 2026/27 onwards. The Government have announced a review of the future of the New Homes Bonus. This may mean the scheme changes, and the amounts allocated could reduce. However, it is expected that any overall reduction in funding would be repurposed into other funding streams.

Settlement Funding Assessment / Business Rates Baseline

- 5.19 To support businesses in the near-term, the government has decided to freeze the small business rates multiplier in 2025/26. Local authorities will be fully compensated for this decision through additional Section 31 Grant. In addition, the government announced that the Revenue Support Grant and Baseline Funding Level will increase in line with inflation which will result in a total increase in the Council’s funding of **£1.800m** in 2025/26. It is currently assumed that Sefton will receive an additional **£2.000m** in 2026/27 and 2027/28 for these measures, although this will be dependent on rates of inflation and Government policy.

Business Rates Retention:

- 5.20 Sefton’s retained rates income is forecast to be above its funding baseline for 2025/26, 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. The Settlement announced that 100% Business Rates Retention areas would continue into 2025/26.
- 5.21 A summary of the estimated grant changes is shown below:

	2025/26	2026/27	2027/28
	£’m	£’m	£’m
Government Funding:			
- Social Care Grant	-6.199	0.000	0.000
- Adult Social Care Market Sustainability and Improvement Funding	0.000	0.000	0.000

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- Adult Social Care Discharge Fund (Local Authority Better Care Grant)	0.000	0.000	0.000
- Services Grant	0.453	0.000	0.000
- Recovery Grant	-5.609	0.000	0.000
- Children's Social Care Prevention Grant	-1.219	0.000	0.000
- Extended Producer Responsibility for Packaging Funding	-2.637	2.637	0.000
- New Homes Bonus	-1.265	1.265	0.000
- Settlement Funding Assessment / Business Rates Baseline	-1.800	-2.000	-2.000
	-18.275	1.902	-2.000

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 Within the Council's budget report of February 2024, the financial risk to the Council from Children's Social Care was reported extensively and was reflected in the overall risk analysis that determines the reserves that the Council should hold. The main budget report reflected that in the absence of further government funding, if costs in children's social care (and adults social care) increased then savings would be required in future years.

6.3 This risk has been reported over the last 3-5 years within the Council and has been focussed on the number and cost of accommodation for children who require support. As a result, it has been the main area of the Council where the budget has grown, increasing from about £40m in 2018/19 to £82m in 2024/25.

6.4 It has been reported throughout 2024/25 that certain areas of accommodation and support packages are forecast to overspend. The report to Cabinet in May 2024 outlined that budget realignment would be undertaken to ensure budgets reflected the packages in place at the start of 2024/25 as well as the anticipated reduction in Residential Care packages across the year. This was possible because of continuing improvements in practice which have resulted in more children being placed in more appropriate settings at a lower cost. However, the Service has seen additional children having to be placed in a residential setting. In addition, the costs of packages for Children with Disabilities had increased, although specialist work continues to be undertaken to ensure health are making the appropriate contributions to the cost of care. These were the two main areas driving the overspend in 2024/25.

6.5 At present it is considered that some of the increase in cost of Residential Care packages is short-term in 2024/25 due to forecast activity in 2025/26. Additional improvements have been made to processes to ensure that children receive the right support to enable the right outcomes and invariably deliver the service at a lower cost. It is therefore estimated that the future years' impact will be less significant at this stage and will be in the region of **£6.300m** so provision has been made for this cost in 2025/26. No additional provision has been included in each of 2026/27 or 2027/28, although the need for any increase in the level of provision will continue to be assessed if more children continue to be placed in more appropriate settings at a lower cost.

Adult Social Care – Additional Investment

6.6 The Adult Social Care budget has experienced additional pressure in 2024/25 as a result of increased demand, increased costs, etc. The December 2024 monitoring report forecasts an overspend position of £6.3m. **Page 148** noted that the 2024/25 budget included a total

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saving requirement of £4.7m (£2.4m as part of the approved budget, £1.3m to meet the estimated additional costs of provider fee increases in excess of the agreed budget provision and £1m to fund increased staffing investment). At the end of December 2024, £2.4m of these savings had yet to be achieved in 2024/25, with the forecast outturn position assuming a further £0.5m will be achieved before the end of the year. In addition, the 2024/25 forecast outturn position assumes additional savings of £0.7m through a review of Supported Living payments. Any shortfall in these savings in 2024/25 will therefore need to be achieved in 2025/26. These will be in addition to the additional budget savings proposed for 2025/26 (Paragraph 8.1 - £2.140m).

- 6.7 It is assumed that the significant Adult Social Care additional cost pressures will continue into 2025/26, and after taking account of the savings to be achieved in 2025/26, **£3.700m** additional provision has been included in the 205/26 budget.
- 6.8 It should be noted that the 2024/25 budget included additional funding relating to the Market Sustainability Fund and the Adult Social Care Discharge Fund, both of which were passported to Adult Social Care. Whilst the funding has continued into 2025/26, there is no additional funding to allocate to Adult Social Care. Therefore, any additional in-year pressure will need to be met from efficiencies identified from the Better at Home Transformation Programme Project. This will include any additional pressure if increases in provider fees are in excess of the provision of £7.7m outlined in section 4. In addition, Adult Social Care will introduce gross payments to providers from March 2025. This is a key improvement activity and should mitigate provider fee increases in future. However, the debt risk transfers to the Council with the current estimate for annual client contributions of £17.6m. This debt risk will need to be met by the Service who are currently estimating the potential impact.

Education Travel Support

- 6.9 As in previous years, there has been significant pressure on the Education Travel Support budget during 2024/25. The Council has continued to experience a significant increase in referrals for SEND services and it has become more challenging to secure school places in our mainstream schools. This has therefore led to a significant increase in the number of children being transported, especially relating to out of borough placements. In addition, there has been an increase in the cost of providing the transport. It is therefore proposed to add **£1.600m** to the 2025/26 Base Budget to mitigate the full year impact of the pressures experienced in 2024/25.
- 6.10 It is also proposed to make additional provision on the assumption that the number of children being transported will continue to increase, as will the cost of providing transport. Therefore, based on initial modelling, an additional **£1.500m** has been provided for in 2025/26, with **£1.600m** provided in 2026/27 and **£1.500m** in 2027/28. However, it should be noted that Education Travel Support is one of the projects within the Council's Transformation Programme and savings are anticipated from various initiatives proposed as part of the Project. These savings are incorporated into the Budget / MTFP in Section 8.

Growth Programme

- 6.11 The Council's Growth Programme contains a number of schemes that may require additional revenue funding in future years, primarily to support the additional net borrowing costs resulting from the Council partially funding schemes, including the impact of the potential increase in interest rates. Provision of **£1.100m** has been made in 2026/27 for the potential costs, with a further **£1.000m** provision in 2027/28. Note that these estimates will continue to be the subject of review as business cases are approved and schemes progress.

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6.12 In addition, the Council has approved a number of schemes in the Capital Programme funded from Capital Receipts generated through the Asset Management Disposal Programme. In order to ensure that the Capital Receipts are retained so they are available for future use, it is proposed that the schemes now be funded through Prudential Borrowing. This will require additional provision of **£0.437m** in 2025/26, with further provision of **£0.246m** in 2026/27 and **£0.208m** in 2027/28.

ICT Refresh

6.13 The Council has a number of ICT assets (predominately laptops) that are now over five years old and approaching the end of their useful life. In order to meet the minimum specification as set by Microsoft for Windows 11, Windows 10 is end of life in October 2025 and therefore the Council has to replace these older devices in advance of this deadline.

6.14 The equipment refresh programme is estimated to cost £450,000. Council, on 11th July 2024, approved the refresh programme being included in the Capital Programme, funded from prudential borrowing. The additional revenue costs from this decision are **£0.100m** per year for five years.

Additional Corporate Capacity

6.15 In recent years Corporate Capacity has reduced whilst services such as Adult Social Care and Children’s Social Care have increased in complexity, size, workforce and budget, resulting in additional demands on corporate services. This has led to more of a focus on core day to day activity. The previous model was based on a small corporate centre with managers doing more for themselves, but there is currently more of a push to the centre for support and to do activities that were previously conducted in services.

6.16 Therefore, capacity will be increased across a number of areas, including Legal, ICT, Finance and Human Resources, to ensure all regulatory requirements can be met, and services can receive the appropriate level of support. It is proposed to implement this during 2025/26, with an additional requirement of **£0.375m** in 2025/26 and a further **£0.125m** in 2026/27.

Transformation Programme Costs

6.17 As stated earlier in the report, one of the key stated aims of the Transformation Programme is to deliver financial sustainability to the Council. Each element of the Transformation Programme will require appropriate support to ensure delivery of the Programme and the achievement of its financial objectives.

6.18 Most Projects within the Programme are expected to generate savings, and / or achieve cost avoidance, so it is anticipated that any additional capacity required to support the Projects will be met from the savings achieved. However, there are projects where no savings will be generated to offset the costs of implementing these changes. It is proposed to implement these activities during 2025/26, with an additional requirement of **£0.736m** in 2025/26 and a further **£0.245m** in 2026/27.

7. Summary MTFP Position 2025/26 to 2027/28 including Growth

7.1 Based upon the potential budget options, additions and funding it is now estimated that the funding shortfall between 2025/26 and 2027/28 will be **£45.098m**, before any savings are approved or Council Tax decisions are made, and any further service delivery options are considered. A detailed analysis is shown below:

	2025/26	2026/27	2027/28
	£'m	£'m	£'m

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Revised MTFP Funding Gap – excluding Council Tax	17.489	13.210	12.000
Local Government Finance Settlement	-18.275	1.902	-2.000
Proposed Growth Items:			
- Children’s Social Care – Permanent Pressures from 2024/25	6.300	0.000	0.000
- Adult Social Care – Permanent Pressures from 2024/25	3.700	0.000	0.000
- Education Travel Support – Permanent Pressures from 2024/25	1.600	0.000	0.000
- Education Travel Support –increase in numbers	1.500	1.600	1.500
- Growth Programme	0.437	1.346	1.208
- ICT Refresh	0.100	0.000	0.000
- Additional Corporate Capacity	0.375	0.125	0.000
- Transformation Programme Costs	0.736	0.245	0.000
-			
	14.748	3.316	2.708
Revised MTFP Funding Gap excluding Council Tax and budget savings	13.962	18.428	12.708
Total MTFP Funding Gap			45.098

8. Budget Proposals

8.1 The following budget savings and mitigations are proposed to reduce the budget gaps in 2025/26, 2026/27 and 2027/28. Further detail on the proposals is given in Appendix B.

	2025/26	2026/27	2027/28
	£’m	£’m	£’m
Revised MTFP Funding Gap – excluding Council Tax and budget savings	13.962	18.428	12.708
Budget Savings Approved in February 2024:			
- Adult Social Care – further permanent Demand Management savings	-2.140	-1.980	0.000
- Corporate Resources- Increased Debt collection	0.000	-0.200	0.000
- Corporate Resources- Corporate Resources and Customer Services-service redesign	0.000	-0.305	0.000
- Communities - Leisure Centres- Increased charges in line with inflation to maintain budget position	-0.200	-0.200	0.000
- Communities - Increased charges Atkinson in line with inflation to maintain budget position	-0.025	-0.025	0.000
- Communities - Formby Pool-review of the annual subsidy contribution in new contract	0.000	-0.237	0.000
- Communities - Crosby PFI- reduced cost following end of contract	0.000	0.000	-0.263
- OIHS – Sefton Arc	-0.100	0.000	0.000
- OIHS – Alley Cleaning	0.000	-1.168	0.000
	-2.465	-4.115	-0.263
Additional Proposed Budget Savings / Mitigations			

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- Education Travel Support – Transformation Savings	-1.210	-1.090	0.000
- Children’s Social Care – Initiatives to reduce costs of providing support packages	-1.000	-0.300	0.000
- Utilising Public Health funding to support universal services within Children’s Services	-0.800	0.000	0.000
	-3.010	-1.390	0.000
Revised MTFP Funding Gap	8.487	12.923	12.445
Total MTFP Funding Gap			33.855

8.2 It should be noted that budget gaps would remain in 2026/27 and 2027/28 even if maximum Council Tax increases were approved. Further work will commence in the new financial year to develop the Medium-Term Financial Plan and refine the budget gaps, including to reflect the requirements of Adult and Children’s Social Care within the context of the overall financial envelope of the Council. This budget gap will require the development of further budget / savings proposals over the first half of 2025/26.

9. Temporary Budget Pressures

9.1 There are also other significant budget pressures that are currently considered to be temporary in nature. It is assumed that as these losses are considered temporary, they will be funded from one-off resources.

Insurance Fund

9.2 As mentioned in section 4, the costs of insurance premiums have increased significantly in recent years. In addition, the costs of individual claims covered by the Council’s Insurance Fund (e.g. relating to property claims) have also increased. This has meant that, in addition to the contributions made annually into the Insurance Fund no longer being sufficient to cover the costs being incurred, the resources within the Fund at the end of 2024/25 won’t be sufficient to cover known liabilities. Therefore, a one-off contribution of £1.100m is required to offset additional costs incurred up until 2024/25, which will be funded from one-off resources.

Energy Costs

9.3 As outlined in paragraphs 4.15 and 4.16, the Council’s energy costs have increased significantly in recent years. To reflect this, an additional £1.000m has been built into the Base Budget for 2025/26 onwards. However, it is expected that costs in 2025/26 will be higher than this, although the potential additional costs are currently unknown, but it is currently assumed that these potential additional costs will be temporary, and costs will reduce further in 2026/27. This assumption will continue to be reviewed and any increase in prices considered permanent will need to be built into future budgets. Any additional costs in 2025/26 will therefore be temporarily funded from the Business Rates Revaluation Reserve, with any utilisation being required to be reversed in 2026/27.

Net Council Tax Surplus

9.4 Budget monitoring reports during 2024/25 have highlighted that a net Council Tax surplus will be realised in the year which will be declared for 2025/26. This is due to a number of factors including an additional surplus from 2023/24, increased housing growth and reduced exemptions and discounts, particularly relating to the Council Tax Reduction Scheme. In addition, the Council has reassessed its Bad Debt Provision in light of collection performance.

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- 9.5 The net impact of the above issues is that a net Council Tax surplus of £2.600m will be declared for 2025/26.
- 9.6 It is proposed to utilise £1.100m of the surplus to increase resources within the Council's Insurance Fund, as explained in paragraph 9.2. The remaining £1.500m will be available to support an increase in General Balances.

Pension Fund Surplus

- 9.7 The 2026 valuation of the Merseyside Pension Fund will set contribution levels for the 2026/27 to 2028/29 period. Although the valuation is yet to be finalised, initial indications are that Sefton's element of the Fund will be in surplus. This surplus will be passed back to the Council over a period of time, by reducing the overall amount contributed to the Fund each year. It is estimated that the surplus available to the Council from 2026/27 will be in the region of £2.400m for each year the valuation covers (which will then be reassessed in the following valuation). Given the requirement to increase General Balances, discussed below, it is proposed to add the surplus received to General Balances in 2026/27 and 2027/28.

Increase in General Fund Balances

- 9.8 The 2024/25 Budget Report, and the 2024/25 Robustness Report, both approved by Budget Council in February 2025, outlined the higher level of risk due to the current financial pressure within local government nationally that is driven through Children's Services, Adult Social Care and Education Travel Support. It also highlighted that the Council's General Balances position at that time was lower than most similar local authorities. The budget package therefore included provision, through using other one-off resources, for increasing the Council's General Balance to £30.3m.
- 9.9 As mentioned earlier in the report, the Council is forecasting an overall overspend of £17.8m in 2024/25 before the use / repurposing of Earmarked Reserves. It is forecast that a residual overspend of £12.3m will still need to be met from General Balances. This will reduce General Balances to around £18.0m at the end of 2024/25, below the assessed prudent level of £30m.
- 9.10 The 2024/25 report stated that any use of General Balances in one year should be replenished in the following financial year. However, given the pressures on the overall budget position for 2025/26 it is not considered viable to increase General Balances from the Council's budget in 2025/26. Therefore, as outlined in Section 4, it is proposed to increase General Balances by £3.000m each year from 2026/27 onwards from the Council's budget.
- 9.11 This annual contribution forms part of an overall Reserves Strategy to increase General Balances to a more appropriate level. In addition, it is proposed to utilise some of the Council Tax Surplus declared for 2025/26 (described in paragraph 9.5) as well as the Pension Fund Surplus to be received in 2026/27 and 2027/28 (described in paragraph 9.6) to ensure that General Balances have returned to the level previously assessed as being prudent for the level of risk faced by the Council.
- 9.12 An analysis of the proposed changes to General Balances over the MTFP period is shown below:

	2025/26	2026/27	2027/28
	£'m	£'m	£'m
General Balances Brought Forward	-18.000	-19.500	-24.900

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Annual Provision for Increases	0.000	-3.000	-3.000
Council Tax Surplus	-1.500	0.000	0.000
Pension Fund Surplus	0.000	-2.400	-2.400
General Balances Carried Forward	-19.500	-24.900	-30.300

- 9.13 This strategy would therefore increase balances to £30.300m by the end of 2027/28, i.e., in line with the budgeted level in 2024/25. General Balances will need to be reviewed in future years to ensure it is in line with the level required to mitigate the risks that a Council of Sefton's size faces, taking into account potential increases or decreases in the level of risk. It is important to note that whilst the strategy increases General Balances that would put the Council in a similar position to other councils, this Council does not have substantial legacy Earmarked Reserves available (as all potentially available Earmarked Reserves were released to support budget pressures in previous years), therefore remains a higher risk when compared to other councils. The level of General Balances is considered reasonable for 2025/26 given it could potentially cover two years of significant overspends, assuming in-year mitigating actions would be taken as soon as budget pressures are identified. Any decision on their use during 2025/26 will initially be made by the Leader of the Council in conjunction with Cabinet Member for Regulatory, Compliance and Corporate Services, the Chief Executive and s151 Officer- any use of General Balances must be replenished as soon as possible.

10. Additional Funding

Council Tax Increases

- 10.1 The Government, as part of the Local Government Finance Settlement, has confirmed the Council Tax Referendum Principle of 3% for 2025/26. A 2.99% increase for Sefton (to ensure the Council wouldn't breach the principle) would generate **£5.085m** in 2025/26. It is assumed that a 3% Core Referendum Principle to also apply in future years– it is estimated this would generate an additional **£5.353m** in 2026/27 and **£5.636m** in 2027/28.
- 10.2 As mentioned in paragraph 4.1, local authorities have been given the power to raise Council Tax by a further 2% on top of the core principle as an Adult Social Care Precept. This would generate an additional **£3.401m** in 2025/26. It is assumed that a 2% Adult Social Care Precept Principle to also apply in future years– it is estimated this would generate an additional **£3.581m** in 2026/27 and **£3.769m** in 2027/28.
- 10.3 Decisions on the Core Referendum Principle and the Adult Social Care Precept for 2026/27 and 2027/28 will be formally announced as part of the Local Government Finance Settlement in the December prior to the financial year.
- 10.4 A decision on the level of Council Tax is made by Budget Council each year. The 2024/25 Band C Council Tax is £1,730.14. It should be noted that as part of the Settlement the Government assumes local authorities will raise Council Tax by the maximum amount when calculating an individual authority's Spending Power and this will directly influence future years funding allocations.

11. Budget 2025/26 – Specific Issues

Charges Relating to External / Levying Bodies

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- 11.1 The Council is required to pay charges relating to levies from external bodies. The expected payments for 2025/26 and their impact on Sefton's budget compared to 2024/25 is shown in the table below: -

<u>Levying Body</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Change</u>
	<u>£</u>	<u>£</u>	<u>£</u>
Liverpool City Region (LCR) Combined Authority - Transport Levy	20,518,159	TBC	TBC
Waste Disposal Authority	16,510,438	TBC	TBC
Environment Agency	172,438	TBC	TBC
Inshore Fisheries & Conservation Authority	89,089	TBC	TBC
Port Health Authority	94,500	TBC	TBC
	37,384,624	TBC	TBC

The approved 2025/26 figures will be reported at Budget Council.

Proposed Overall Council Tax increase

- 11.2 The proposed total increase in the Sefton Council Tax for 2025/26 will be reported to Budget Council following any recommendation from Cabinet.

Fees and Charges

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

12. Dedicated Schools Grants (DSG) 2025/26

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

- Schools – Mainstream schools and Academies.
- Early Years – Universal and additional entitlement for three and four-year olds; two-year old free entitlement; new Under 2s entitlement; and funding for Maintained Nursery schools.
- 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).
- Central School Services – Funding for centrally (Council) retained services, including school admissions.

- 12.2 In November 2024, the Government announced its indicative DSG funding for 2025/26 to support Schools and High Needs. An additional £2.3bn of funding has been added nationally to schools and high needs funding in 2025/26, with the split between these two funding Blocks being School funding (£1.3bn) and High Needs (£1bn). These increases are inclusive of three specific teachers' pay and pension grants to schools, which for the schools, have been rolled into the schools' national formula funding from 2025/26, whilst for High Needs, these will continue to be allocated via the three separate grants. These grants include the Core Schools Budget Grant in support of the 2024 Teachers and support staff pay awards; Teachers Pay Additional Grant supporting the 2023 teacher pay award increase over and above the 2023/24 budget settlement; and Teachers Pensions Employers Contribution Grant to support a 5% increase to the employers' pension contributions from April 2024. Schools funding has been increased by an average 2.23% per pupil in 2025/26 including the intecPage 155 above grants.

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- 12.3 The High Needs funding increases nationally, have been capped at 10% per head in 2025/26 compared against the 2024/25 baseline allocations. Sefton's individual funding increase per head in 2025/26 is 9.16%.
- 12.4 Additional to the formula funding allocations, the Government has announced that there will be some additional grant funding for schools towards the increased costs of the changes in Employer National Insurance contributions, which are changing from April 2025. More detail as to the value and allocation of this grant is expected in the Spring.
- 12.5 The 2025/26 Dedicated Schools Grant settlement was announced on 17 December 2024. The 2025/26 DSG allocation for Sefton of **£320.823m** is set out in the table below. This includes school Business Rates and pupil growth funding; and additional funding for Early Years towards the expansion of childcare by an additional 15 hours provision per week available for working families in 2025/26 across the 2-year-old and under 2's age groups; the figures shown below are also before any deductions made by the DfE from Sefton's High Needs Block, to enable them to make direct payment to academies and local Colleges of FE.

12.6 **2025/26 DSG Funding Allocations for Sefton are as follows:**

<u>DSG Funding Blocks</u>	<u>DSG Funding 2025/26 (£m)</u>	<u>Increase of last updated 2024/25 DSG figures (Nov 2024) (£m)</u>
Schools Block (SB)	224.566	15.432
Schools related Pupil Growth funding allocation	0.850	
Early Years Block (EY)	41.932	11.801
High Needs Block (HN)	51.925	4.359
Central Schools Services Block (CSSB)	1.550	0.030
Total allocated DSG funding 2025/26 (Per DfE Dec 2024)	320.823	31.622

Schools Block

- 12.7 Sefton Schools Block will see a net increase in funding of **£15.432m** compared to 2024/25 (an increase of +7.35%). This figure includes the three grants referred to (**+£15.25m**) rolled into the 2025/26 funding baseline, and also some growth for inflation of (**+£2.38m**) in 2025/26. However, due to falling pupil rolls across Sefton, as at October 2024, overall school funding has reduced year on year by (**-£2.198m**) which includes a (£-0.551m) reduction of the Pupil Growth funding allocation for 2025/26, leaving a net increase of **+£15.432m**. Sefton's school population, based on the October 2024 school census, has seen a decline across both phases year on year as follows: Primary net decrease of **-283.5** pupils; Secondary net decrease of **-14.5** pupils – Net decrease overall **-298.0** pupils.
- 12.8 The above funding increases will ensure that the minimum funding levels per pupil in 2025/26 will increase to **£4,995** per Primary pupil (£4,610 in 2024/25) and **£6,465** per Secondary pupil (£5,995 in 2024/25).
- 12.9 The DfE are still committed to implementing a centralised National Schools Funding Formula (NSFF) model. The 2025/26 formula funding guidance now includes a +/-2.5% (+/-5% in 2024/25) tolerance range that local authorities must abide by when setting their formulae factor values. This is

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matching the NFF rates by 2026/27, when it is likely to become a highly centralised function of the DfE. Sefton have already adopted the NFF funding rates in their formula and are within the revised allowable tolerance levels.

12.10 Sefton's Minimum Funding Guarantee (MFG) has been set at -0.5% in 2025/26 (+0.5% in 2024/25) on account of schools agreeing to a 0.5% schools block funding contribution to High Needs in 2025/26 to make the funding model affordable. The National MFG rate applied is set at +0% being a cash flat settlement for the year, but Local Authorities are able to set their MFG levels anywhere between -0.5% and +0% in 2025/26 to suit their funding allocations and offer some funding protection.

Early Years Block

12.11 Early Years funding announced in December 2024, provides Sefton with an allocation of **£41.932m** in 2025/26, an increase in funding of **£11.801m** on 2024/25. This increase is reflective of changes to childcare nationally during 2025, which will see a planned widening of childcare provision to include an extra 15 hours of support to working families for 2-year-old and Under 2's provision from September 2025. Childcare provision across all age groups from 18 months up to 4 years old will then be available to eligible families for up to 30 hours a week from this time.

12.12 In a year of expansion and having only estimates of the likely new numbers of take up, the Early Years funding allocated to Sefton may need to be adjusted during the year, through a series of termly headcounts, as the DfE have been doing during 2024, until numbers begin to settle with the complete expanded provision beyond September 2025.

12.13 The Schools' Forum has approved the Hourly Base rates payable to Sefton providers (after the permitted / normal retention of Early Years local authority support costs) to be applied with effect from 1 April 2025. The pass-through rate of funding to providers has been increased in 2025/26 to 96% from 95% in 2024/25, and this rate will increase again from 2026/27 to 97%. This is the minimum amount Local Authorities must pass on to providers for Early Years provision after setting aside for recovery of Local Authority support service costs. Sefton's allocation for Early Years provision is currently well in excess of the 96% minimum rate.

12.14 The Maintained Nursery Schools continue to receive a protection subsidy, which in 2024/25, will see an increase to the hourly rate of £0.73p per hour to £6.92 per hour following a national uplift to the subsidy. This is inclusive of the Core schools budget grant towards Teachers Pay award costs from September 2024 and some inflation provision.

High Needs Block

12.15 Below, is the analysis of Sefton's High Needs funding for 2025/26 compared against the 2024/25 allocations. It also shows the funding after DfE deductions are made from Sefton's allocation to equalise the funding between local authorities for pupils attending special schools' cross-boundary from where they live; and to pay for Special Educational Needs and Disabilities (SEND) places for Sefton pupils attending any special academy schools and colleges of further education. Net funding to Sefton is therefore **£46.605m** in 2025/26.

<u>High Needs funding</u>	<u>2024/25 £m</u>	<u>2025/26 £m</u>	<u>Change in funding £m</u>	<u>% increase</u>
High Needs Funding Floor paid in 24/25 and in 25/26	£43.653m	£47.550m	+£3.897m	
Basic Entitlement incl. historic Teachers Pay funding for Special	£3.913m	£4.375m	+£0.462m	

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schools and fixed sum for AP/Hospital schools				
Funding to Sefton's High Needs Baseline funding	£47.566m	£51.925m	£4.359m	+9.16%
Total High Needs Block Funding before ESFA deductions/Top-Slicing	£47.566m	£51.925m	£4.359m	+9.16%
Less ESFA Deductions				
Top-Slice of Sefton's High Needs funding by the ESFA to pay for Pre and Post 16 Sefton pupils Placed in Special Academies and Academy Alternative Provision and Colleges of FE	£-3.607m	£-5.320m	£-1.713m	
Total Net High Needs Funding for Sefton's direct provision without any Schools Block transfer of funding.	£43.959m	£46.605m	£2.646m	

- 12.16 Under the £1bn national High Needs funding allocation announced by the Government in November 2024, Sefton's High Needs overall funding has increased by 9.16% per head, being very close to the national maximum cap level at 10% per head.
- 12.17 Sefton has asked all mainstream schools, via the Schools' Forum, to agree to a 0.5% top-slice contribution of the schools' block funding (£1.118m) to be held centrally and earmarked to offset some of the significant SEND cost pressures faced in several mainstream school settings having significant numbers of pupils on roll with Education Health and Care Plans and / or receiving additional SEN support for non-EHCP cases; and in 2025/26 also towards transitional support to schools as the Authority seeks to move towards a banded / matrix SEN funding mechanism in 2025. This funding, now agreed, will be used to meet up to the first £6,000 of any additional SEN support for each pupil with an EHCP over a 3% threshold in each school's pupil population in a bid to prevent the potential breakdown of mainstream SEN placements and the transfer of SEND children into more expensive specialist placements; and will also be applied, in a limited way, to support any schools who may lose funding as a result of moving into a new banded / matrix SEN funding model. Work is due to begin on developing a new SEN funding model for mainstream schools.
- 12.18 Sefton's High Needs budget continues to face severe cost pressures and as of December 2024 is forecast to overspend by nearly **£27m** in 2024/25, increasing the accumulated deficit balance on High Needs to over **£65m** by the end of 2024/25.
- 12.19 The 2014 SEND reforms, while raising expectations and extending support from birth to 25 years, did not initially come with adequate uplifts in funding to reflect the significant increased cohort numbers and complexity of children and young people. The annual uplifts to the High Needs Budget have not increased in line with the significant increases in SEND demand each year.
- 12.20 The increase to the High Needs funding allocation for 2025/26 is higher than in 2024/25 and is a welcome uplift, but still remains insufficient to cover the current level of spending. The full-year impact of the current 2024/25 in-year placements plus expected increases in new demand for EHCPs in 2025/26, will make the overspending situation even more acute in 2025/26. The Government are now committed to reviewing High Needs funding in 2025 and to examining the large deficits accumulated by local authorities. Local authorities have been lobbying the Government, through the Local Government Association and

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other representative bodies, to look at these issues before the current deficit statutory override expires at the end of 2025/26.

- 12.21 Some of the initiatives to help reduce costs and generate future cost efficiencies have continued to be rolled out during 2024/25, including growing in the number of in-house places across special schools and resourced units, to meet future demand; along with work in developing the Graduated response and SEN early interventions, which are starting to have a positive impact across schools.
- 12.22 Much more of this work is required to continue in 2025/26, and over the next few years, will include capital investment in the expansion of special school places; and SEN Resource Unit places which are attached to mainstream schools. It is hoped, that by growing in-house places across the Council's current provision, this will help reduce (though not eliminate) the need for high cost of out of Borough placements at independent special schools and non-maintained special schools in the future. In addition, as referred to above, in 2025, the Authority is to work on a project to move towards a new banded / matrix system of SEN funding to mainstream schools. This will introduce a single, transparent, and more clearly understood mechanism of funding, which follows the child, and moves away from the current variety of different funding elements, towards more targeted funding, linked to defined descriptors of need, and with smaller emergency, shorter term funding allocations used towards supporting early interventions, where this may be required. This system is still to be developed and rolled out in late 2025, with the support of Headteachers.
- 12.23 The Delivering Better Value (DBV) Programme commenced in January 2023 and has brought with it some funding nationally (£55m), £1m of which has been made available to Sefton to help develop in-house changes, which are underway. The DBV programme is not prescriptive on the Council, nor will it carry funding to off-set any of the accumulated deficit on High Needs. The funding is being used to support many of the actions identified above, including graduated approach; early interventions and development of a matrix / banded funding model to name a few. The Council is in track to deliver the outcomes of the DBV programme to the satisfaction of the DfE - at a recent review the DfE noted progress in Sefton as best practice to be shared with other Local Authorities.
- 12.24 The increasing deficit, outlined in paragraph 12.18, has had a significant impact on the Council's cash flow position. This has meant that interest earned on investments of cash balances has significantly reduced, and additional borrowing to support the Council's cash flow position has been required. To date this has impacted on the Council's overall General Fund position. The budget for 2025/26 includes an additional £2.000m to reflect the additional borrowing costs / loss of income from having to service the deficit.

Central School Services Block

- 12.25 The Central School Services Block (CSSB) will receive funding of **£1.550m** in 2025/26 (an increase of £0.030m on 2024/25) to cover ongoing historic costs and ongoing / current centrally retained DSG spending. The 'historic' costs include combined budgets for the running of the Professional Development Centre (PDC) in Formby and grounds maintenance and ongoing costs in managing the sites of closed schools across the Borough. The ongoing current costs supported by this Block include Free School Meals checking; School Licences; School admissions work including new duties and responsibilities; and a range of allowable education statutory duties of the Local Authority performed on behalf of all schools, which were previously funded from Education Services Grant (ESG).
- 12.26 Since 2019/20, the funding to support historic costs has been reducing by 20% each year by the DfE until it ends, which is now ~~predicted to~~ be 2026/27; there is an expectation that

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local authorities will need to find alternative ways of funding these activities or cease providing them altogether. From April 2022, the use of the PDC was altered, to include some office accommodation for Education Excellence staff whilst sharing the Centre running expenses; as well as charging all users, including schools, for room hire, to make the Centre more self-sufficient financially and less reliant on the reducing DSG support. In addition, a core budget has now been identified from 2024/25 towards the costs of maintaining the former closed school estates. The residual grant within the CSSB for these two historic spending areas will continue to be applied against ongoing costs until it ceases altogether.

Schools' Forum Decisions

- 14.14 Schools Forum on 13 and 20 January 2024, approved the application of DSG schools funding in 2025/26 including a 0.5% contribution from the Schools' Block to High Needs (£1.118m); the setting aside of £0.200m towards pupil growth contingency; the de-delegated funding for Maintained schools; and the approval of early Years provider rates for 2025/26 from 1 April 2025. Cabinet is asked to approve the agreed application of the 2025/26 DSG funding for Schools; Early Years; High Needs and Central Schools Support, as agreed by Schools Forum. This approval is required by the DfE.

13. Other Government Grant Notifications and Other Funding 2025/26

- 13.1 The Government have announced grant notifications for 2025/26 in the areas identified below. Should any further information be supplied on other grants, this will be included in a separate update to Cabinet / Council.

Homelessness Prevention Grant

- 13.2 The Homelessness Prevention Grant national allocation for 2024/25 was £440m. The total funding has been increased to £633m for 2025/26. Sefton's allocation has increased from £0.848m in 2024/25 to £1.237m in 2025/26, an increase of £0.389m. It is proposed that the 2025/26 allocation will continue to be allocated directly to the appropriate Homelessness budgets.

Children and Families Grant

- 13.3 A number of existing funding streams, previously funded by the Department for Education, have been consolidated into a new Children and Families Grant in the Settlement. The existing funding streams were:

- Supporting Families
- Supported Accommodation Reforms – New Burdens to LAs
- Staying Put
- Virtual Heads Extension for Previously Looked After Children
- Leaving Care Allowance
- Personal Advisors

- 13.4 The total national funding provided by these grants were £414m, with Sefton's allocations totalling £2.055m. This total funding remains unchanged in 2025/26. It is proposed that the 2025/26 allocation of the consolidated grant will continue to be allocated directly to the appropriate Council budgets supporting services to children and families.

Domestic Abuse Safe Accommodation Grant

- 13.5 The Domestic Abuse Safe Accommodation Grant national allocation for 2024/25 was £130m. The total funding has been increased to £160m for 2025/26. Sefton's allocation

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has increased from £0.631m in 2024/25 to £0.787m in 2025/26, an increase of £0.156m. It is proposed that the 2025/26 allocation will continue to be allocated directly to the appropriate Council budgets supporting victims of domestic abuse.

Drug and Alcohol Treatment & Recovery Improvement Grant

- 13.6 Between 2022/23 and 2024/25 the Council has received additional funding through the Supplementary Substance Misuse Treatment & Recovery Grant. The funding was passported to the Health and Wellbeing Service to deliver a range of interventions to support people who use drugs and alcohol, and contribute to improving outcomes for them, their families, and the wider community.
- 13.7 The Office for Health Improvement and Disparities have announced the continuation of this grant into 2025/26 (now renamed the Drug and Alcohol Treatment & Recovery Improvement Grant). The indicative allocation for 2025/26 is £3.170m. It should be noted that this allocation is indicative and is still subject to Department of Health and Social Care (DHSC) and Treasury approvals and as such final allocations could vary. It is proposed that the 2025/26 allocation continue to be allocated directly to the Health and Wellbeing Service to support the aims of the grant.
- 13.8 Cabinet is asked to approve that authority be delegated to the Head of Health and Wellbeing / Director of Public Health, in consultation with Cabinet Member for Health, Wellbeing and Inclusion, to formalise the agreement relating to Grant, and to issue a contract variation to uplift the service contract in line with the Grant funding as per existing arrangements.

14. Summary of Budget Proposals for 2025/26

- 14.1 As a result of the information contained within this report the bridging of the 2025/26 funding gap is shown as follows:

	2025/26
	£'m
Revised MTFP Funding Gap	17.489
Local Government Finance Settlement	-18.275
Potential Growth to the Budget	14.748
Proposed Budget Savings / Mitigations	-5.475
Revised MTFP Funding Gap – excluding Council Tax	8.486
Council Tax – Core increase (TBC%)	TBC
Adult Social Care Precept (TBC%)	TBC

A summary of the budget for 2025/26 is shown at Appendix C (note that for illustrative purposes this assumes a Council Tax increase of 4.99% in 2025/26).

15. Precepts

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

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The Police and Crime Commissioner is expected to set a budget / precept for 2025/26 on 12 February 2025. The Fire and Rescue Authority is due to set its budget / precept for 2025/26 on 27 February 2025.

	Precept			Band C		
	2024/25	2025/26	Change	2024/25	2025/26	Change
	£	£	£	£	£	%
Police	22,909,010	TBC	TBC	235.53	TBC	TBC
Fire	7,889,375	TBC	TBC	81.11	TBC	TBC

The approved 2025/26 figures will be reported at Budget Council.

b. Liverpool City Region Mayoral Precept

To be able to deliver the Mayor's key priorities in 2025/26 a Mayoral Precept is levied on Council Taxpayers across the region, with an increase in the Band C charge of £4.44 (£5.00 for a Band D) approved at the Authority's meeting on 24 January 2025.

	Precept			Band C		
	2024/25	2025/26	Change	2024/25	2025/26	Change
	£	£	£	£	£	%
Mayoral	1,642,719	2,096,825	454,106	16.89	21.33	26.3

The approved 2025/26 figures will be reported at Budget Council.

c. Parishes

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

	Precept			Band C		
	2024/25	2025/26	Change	2024/25	2025/26	Change
	£	£	£	£	£	%
Aintree Village	174,522	TBC	TBC	74.59	TBC	TBC
Formby	116,109	TBC	TBC	11.19	TBC	TBC
Hightown	25,000	TBC	TBC	25.42	TBC	TBC
Ince Blundell	3,000	TBC	TBC	15.32	TBC	TBC
Little Altcar	5,672	TBC	TBC	11.19	TBC	TBC
Lydiate	227,100	TBC	TBC	95.66	TBC	TBC
Maghull	856,115	TBC	TBC	109.96	TBC	TBC
Melling	39,655	TBC	TBC	31.52	TBC	TBC
Sefton	15,000	TBC	TBC	40.70	TBC	TBC
Thornton	12,000	TBC	TBC	13.80	TBC	TBC
	1,474,173	TBC				

The approved 2025/26 figures will be reported at Budget Council.

16. Recommended Council Tax for 2025/26

- 16.1 Council is recommended to approve the Budget for 2025/26, as set out in the main report.
- 16.2 The recommended overall Band C Council Tax to be raised for 2025/26 (excluding Parish Precepts) is as follows: -

	2024/25	2025/26	Increase
	£	£	%

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Sefton	1,730.14	TBC	TBC
Police & Crime Commissioner	235.53	TBC	TBC
Fire & Rescue Authority	81.11	TBC	TBC
Mayoral Precept	16.89	TBC	TBC
	2,063.67	TBC	TBC

The recommended Council Tax for 2025/26 will be reported to Budget Council

17. Capital Programme 2025/26 to 2027/28

17.1 Each year, Budget Council approves the detailed capital programme for the forthcoming year following notification from central government of any grant allocations that are to be received. This is aside from any in year approvals in respect of the growth and strategic investment programme for which comprehensive business cases are provided as schemes are developed and funding sources are identified. The three remaining significant grant allocations received by the Council are in respect of Adult Social Care, schools and transport. Due to the funding conditions, these grants will be utilised within the relevant services, and these are shown at Appendix D, in addition to the proposed use of the Better Care Fund and all other schemes in the Capital Programme. It should be noted that these are indicative grant allocations only and will be updated in future reports to Cabinet and Council once the allocations have been confirmed by Government and the Liverpool City Region Combined Authority.

17.2 Council is also recommended to approve the specific Supplementary Capital Estimates outlined below:

Vine House Demolition

17.3 Vine House is located on Kepler Street in Seaforth. It is a 14-storey tower block with a small car park to the rear and is in Council ownership. When the Council transferred its housing stock in 2006, Vine House was omitted from the disposal because of concerns about its long-term sustainability and condition. It has remained empty ever since.

17.4 A number of potential schemes have been explored with developers to try to bring the building back into use, however, these potential refurbishment schemes were found not to be viable. The Council is therefore continuing to incur ongoing costs for maintenance of the asset and these additional costs have to be found from within existing budgets. In the last three years works to Vine House have amounted to approximately £100,000. Over this period a potentially significant structural issue has also been identified affecting the external brick columns of the building where significant cracking has appeared. This has been encapsulated and has to be inspected every 12 months via an abseil survey.

17.5 A number of options were reviewed in September 2024 for the future of the building, including demolition which was determined to be the best option considering the previous unsuccessful attempts to bring the building back into use, the ongoing holding costs, the cost of investigating and remedying the structural issue with the columns and the overall impact such a large building has on the local area. A budget of £1,500,000 has been identified as being required to demolish the building. Council is therefore requested to approve a supplementary capital estimate of £1,500,000 to be funded by Prudential Borrowing.

Food Waste Management

17.6 The Council's Operational In-House Services has acquired land at the rear of its current site at Hawthorne Road Depot in Bootle. There is a requirement to develop the waste land and make good the area to incorporate the new fleet for the Food Waste Service and Specialist Transport Unit. The projected work: **Page 163** all aspects of groundwork, including

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drainage, security fencing and lighting, electric equipment and installation of all utilities, welfare facilities and offices. Council is therefore requested to approve a supplementary capital estimate of £500,000 to be funded by Prudential Borrowing.

Hawthorne Road Wash Bay and Additional Works

- 17.7 High Pressure Wash Bay (£133,600) – Operational In-House Services (OIHS) main site at Hawthorne Road Depot requires an upgrade to its wash area for all fleet vehicles. The ground works will require a specialist approach due to the land environment. Over time the services have outgrown a number of the facilities at the depot. The introduction of new fleet and bespoke vehicles means it will be far more cost effective to have an in-house pressure washing facility rather than sending vehicles to external contractors, given the nature and size of these vehicles the wash area will require a significant upgrade to incorporate 32t and 26t vehicle specification.
- 17.8 Additional Works (£85,800) – Following a number of recommendations based on how the Council can address sickness absence and overall wellbeing of operational front-line staff within OIHS, the department plans to establish a Health Unit at its Hawthorne Road Depot. This will provide on-site appointments for front line staff at their base with a range of specialist services such as Physiotherapy, Doctor and Counselling service. The appointments will be in line with staff operating times. This investment will contribute to the health and wellbeing of all staff and can be rolled out for other staff groups. In order to establish this there is a requirement to relocate a number of services and Officers to other areas of the site whilst work is underway and provide the appropriate ground works including drainage and utilities to instal offices and unit space, complete with parking and full service provision at the site.
- 17.9 Council is therefore requested to approve a supplementary capital estimate of £219,400 to be funded by Prudential Borrowing.

Fleet Renewal Programme

- 17.10 The Vehicle Replacement Programme has operated successfully over a number of years since its adoption in 2010. The programme incorporates the management and ongoing analysis of the current fleet. The objective is to identify the needs of each service area and customer requirements, to then make recommendations to ensure Sefton retains, maintains and operates a fleet that provides maximum benefit and value for money for all.
- 17.11 Specifications and options will be prepared for vehicles that are included in the replacement programme and financing will be undertaken through the facility of Prudential Borrowing. This borrowing will be taken out via HM Treasury's PWLB lending facility and in line with the Council's agreed borrowing strategy. At the end of the loan period, and dependent upon the condition of the vehicle, it may be retained and utilised for a further period of time, thereby delaying or negating further replacement costs for review at an agreed stage of the asset's life.
- 17.12 The use of external leasing companies may occasionally be used to allow some flexibility to the acquisition of new vehicles procured on lease arrangements utilising the Local Authority collaborative Framework Agreement. This option is utilised where there are specific conditions applied to a vehicle, for example, technical maintenance regimes or time bound project circumstances within a department, making it a more cost-effective option to lease as opposed to purchase. This applies only to a small minority of the overall replacement programme and the preferred option is to purchase outright.
- 17.13 Decisions to replace any part of the Council's fleet will be taken on a vehicle-by-vehicle basis in consultation with the purchasing service area and in line with the Council's Contract and Financial Procedure Rules a

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noted that due to the scale of the replacement programme, the capital budget may be profiled over several financial years for the planned replacement cycle. Council is therefore requested to approve a supplementary estimate of £4,276,500 funded by Prudential Borrowing for the next phase of vehicle replacements.

Temporary Accommodation

- 17.14 Sefton, like many local authorities across the country, is facing an increase in homelessness. The number of households in temporary accommodation has risen sharply over recent years and the increase is driven by factors such as the introduction of the Homelessness Reduction Act (2017) and a lack of affordable 'move on' accommodation.
- 17.15 To address these challenges, a strategic approach is required to review current service delivery, commissioning and the existing temporary accommodation that is available to support residents. Part of this solution will be for the council to explore the refurbishing existing Council-owned properties or where appropriate acquiring new properties via borrowing. The acquisition and refurbishment of these properties will increase the stock of good quality Temporary Accommodation for families and children, reduce reliance on more expensive alternatives, and provide improved value for money.
- 17.16 As stated, these options will save the Council money, with each being considered on an individual basis with a supporting business case. Any investment will be made via prudential borrowing and will be funded from existing service budgets as a key feature of invest to save. An amount of £1m has been identified for inclusion within the Capital Programme for any potential acquisition and refurbishment works, with consideration of individual business cases and the decision to proceed being delegated to Cabinet. Council is therefore requested to approve a supplementary estimate of £1,000,000 funded by Prudential Borrowing for acquisition and refurbishment works.

Disabled Facilities Grants 2025/26

- 17.17 Expenditure on Disabled Facilities Grants for home adaptations has been increasing steadily since 2021/22 and will continue to do so with the delivery of the Council's vision to support more people to remain independent in their own homes for longer, this includes things like the development of the Adult Social Care online Portal, development of extended warranties and revised means testing for applicants. The Council's core programme for Disabled Facilities Grants in 2024/25 was £3.5m, an increase on the target of £3m set in 2023/24's capital programme and £2m set in the 2022/23 programme. The proposed target for 2025/26 will be £4.2m fully funded from the through the Better Care Fund – Disabled Facilities Grant from MHCLG.
- 17.18 Council is therefore requested to approve a supplementary capital estimate for the core DFG programme of £4.2m in 2025/26.

2. Financial Implications

All financial implications are reflected within the report.

3. Legal Implications

There is a statutory requirement to set a robust budget for the forthcoming financial year on or before 10 March 2025. 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.

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4. Corporate Risk Implications

This report highlights the financial position of the Council for 2025/26, which supports its Financial Sustainability in 2025/26 and future years.

5 Staffing HR Implications

None

6 Conclusion

The Council is again faced with a challenging financial environment during 2025/26, particularly as a result of ongoing pressures within Adult Social Care, Children's Social Care and Education Excellence (Education Travel Support). However, the report presents a balanced budget for 2025/26.

Alternative Options Considered and Rejected

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.

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.

Impact on Children and Young People:

None

Climate Emergency Implications:

The recommendations within this report will have a **Neutral** impact.

The allocations of capital funding outlined in Appendix D 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.

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 Assistant Directors, and will do so.

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The Executive Director of Corporate Services and Commercial (FD. 7941/25) is the joint author of the report, and the Chief Legal and Democratic Officer (LD. 6041/25) 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. 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 2025/26. It is a legal requirement to set a balanced budget and ensure the budget plan is robust. As such, any changes to the proposals contained within this report would need to ensure this requirement is still met.

Implementation Date for the Decision:

Officers will be authorised to implement all decisions within this report immediately following Council on 27 February 2025.

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

Appendices:

The following appendices are attached to this report:

- A. Individual School Budgets 2025/26
- B. Budget Saving Proposals / Mitigations 2025/26 – 2027/28
- C. Draft Council Budget Summary 2025/26
- D. Capital Programme 2025/26 – 2027/28

Background Papers:

Financial Management 2024/25 to 2027/28 – Medium Term Financial Plan 2025/26 to 2027/28–
Report to Cabinet and Council – 7 and 14 November 2024

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SCHOOLS FORMULA FUNDING ALLOCATIONS 2025/2026	
Post De-delegation and Education functions budget for Maintained Schools and after deduction of 25-26 NFF NNDR allocation for all schools	
FIGURES EXCLUDE ANY FUNDING TOWARDS THE EMPLOYERS NATIONAL INSURANCE CONTRIBUTIONS WEF 1 APRIL 2025 WHICH WILL BE ANNOUNCED IN THE SPRING ON AN INDIVIDUAL SCHOOL BASIS AND PAID AS A SEPARATE GRANT TO SCHOOLS IN 2025/26	BUDGET 2025/26 £
TOTAL FORMULA FUNDING LEVELS - SCHOOLS 2025/26	221,375,665
PRIMARY PHASE - MAINTAINED SCHOOLS	
Linacre Primary School	866,694
Netherton Moss Primary School	1,234,731
Birkdale Primary School	2,066,412
Farnborough Road Junior School	2,310,788
Farnborough Road Infant School	1,588,568
Linaker Primary School	2,093,493
Norwood Primary School	3,068,716
Marshside Primary School	1,068,850
Aintree Davenhill Primary School	2,030,714
Hudson Primary School	1,277,481
Hatton Hill Primary School	1,789,826
Northway Primary School	1,544,742
Woodlands Primary School	1,524,833
Summerhill Primary School	1,063,198
Freshfield Primary School	1,166,376
Green Park Primary School	1,019,186
Redgate Community Primary School	1,290,333
Kings Meadow Primary School and Early Years Education Centre	955,548
Larkfield Primary School	1,344,500
Melling Primary School	1,092,791
Lydiate Primary School	1,078,470
Christ Church Church of England Controlled Primary School	2,299,608
St John's Church of England Primary School	945,210
St Luke's Church of England Primary School	1,839,215
St Philip's Church of England Controlled Primary School	1,113,544
St Oswald's Church of England Primary School	1,237,271
St Philip's Church of England Primary School	1,087,116
St Monica's Catholic Primary School	2,244,022
St Robert Bellarmine Catholic Primary School	1,102,682
Holy Family Catholic Primary School	1,076,819
St Patrick's Catholic Primary School	1,632,013
St John's Church of England Primary School	1,078,387
St Luke's Halsall Church of England Primary School	1,044,001
St Nicholas Church of England Primary School	1,028,901
St George's Catholic Primary School	1,059,031
Great Crosby Catholic Primary School	3,429,893
Our Lady Star of the Sea Catholic Primary School	1,291,591
Our Lady of Compassion Catholic Primary School	1,009,430
English Martyrs' Catholic Primary School	2,110,661
St Elizabeth's Catholic Primary School	2,269,200
St William of York Catholic Primary School	1,196,427
Our Lady Queen of Peace Catholic Primary School	982,150
St Gregory's Catholic Primary School	1,036,112
Ursuline Catholic Primary School	2,021,098
St Jerome's Catholic Primary School	974,937
Holy Rosary Catholic Primary School	2,075,297

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Appendix A

St John Bosco Catholic Primary School	1,019,178
Bishop David Sheppard Church of England Primary School	1,019,118
Springwell Park Community Primary School	2,369,329
Trinity St Peter's CofE Primary School	1,055,824
St Benedict's Catholic Primary School	1,142,148
All Saints Catholic Primary School	2,123,049
Rimrose Hope CofE Primary School	1,793,855
	79,183,366
SECONDARY PHASE - MAINTAINED SCHOOLS	
Maricourt Catholic High School	6,997,508
Holy Family Catholic High School	6,018,007
Christ The King Catholic High School and Sixth Form Centre	5,374,721
	18,390,236
PRIMARY ACADEMY SCHOOLS	
Shoreside Primary School	959,741
Holy Spirit Catholic Academy	1,058,189
The Grange Primary School	1,627,786
Churchtown Primary School	3,007,685
Kew Woods Primary School	2,130,693
Waterloo Primary School	2,211,484
Forefield Junior School	1,773,890
Forefield Community Infant and Nursery School	1,347,364
King's Lander Primary Academy	1,199,555
Litherland Moss Primary School	1,203,448
Valewood Primary School	1,058,024
Bedford Primary School	2,472,903
St Andrews Church of England Primary School, Maghull	1,078,401
Holy Trinity Church of England Primary School, Southport	1,238,671
Ainsdale St John's Church of England Primary School	1,050,577
Our Lady of Lourdes Catholic Primary School	1,924,236
St Thomas Church of England Primary School, Lydiate	1,035,595
St Mary's Catholic Primary School	564,290
St Edmund's and St Thomas' Catholic Primary School	1,355,855
Thomas Gray Primary School	1,622,898
Our Lady of Walsingham Primary School	1,103,537
	31,024,824
SECONDARY ACADEMY/FREE SCHOOLS	
King's Leadership Academy Hawthornes	5,751,649
St Michael's Church of England High School	4,598,539
Hillside High School	6,202,361
Litherland High School	5,730,609
Stanley High School	5,850,157
Sacred Heart Catholic Academy	4,709,898
The Salesian Academy of St John Bosco	4,455,258
Deyes High School	7,610,159
Formby High School	5,618,085
Chesterfield High School	10,088,361
Range High School	5,461,326
Birkdale High School	6,277,575
Greenbank High School	6,926,457

Meols Cop High School	6,475,429
Maghull High School	7,021,373
	<hr/>
	92,777,238

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Budget Saving Proposals / Mitigations 2025/26 – 2027/28

Service Area	Proposal	Description	Proposed Net Budget Reduction 2025/26	Proposed Net Budget Reduction 2026/27	Proposed Net Budget Reduction 2027/28
			£'m	£'m	£'m
Adult Social Care	Further Demand Management savings	Savings from the Transformation Programme Project "Better at Home"	-2.140	-1.980	0.000
Corporate Resources	Increased Debt collection	Employ additional solicitor to pursue Council Tax, NNDR debt and increase base position of Council	0.000	-0.200	0.000
Corporate Resources	Service Redesign	Start redesign of service in 2024/25 to reflect business need-saving comes from natural turnover. This will be developed in the context of needing to increase corporate capacity	0.000	-0.305	0.000
Communities	Leisure Centres - Increased charges to maintain budget position as a result of previous years and current inflation increases	Costs increased for 2023/24, and service propose that further inflation linked increases can be made without impact on demand or needing to reduce service provision to meet the increase in cost. Income now at pre COVID levels	-0.200	-0.200	0.000
Communities	Increased charges at the Atkinson in line with inflation to maintain budget position as a result of previous years and current inflation increases	Inflation linked increases can be made without impact on demand	-0.025	-0.025	0.000
Communities	Formby Pool - review of the annual subsidy contribution in new contract	Current contract ceases in 27/28 and annual subsidy of £0.237m will be reviewed as site is profitable with separate provision being made. Option being undertaken to determine if new	0.000	-0.237	0.000

		contract can be brought forward, or phasing of saving would be required to achieve in 2026/27			
Communities	Crosby PFI- reduced cost following end of contract	PFI contract ends 27/28 – saving of £0.263m to be made with new operating model- phasing of saving would be required to achieve in 2026/27	0.000	0.000	-0.263
Operational In-House Services	Sefton ARC	Staff restructure- no job reductions and reduced agency costs	-0.100	0.000	0.000
Operational In-House Services	Review of street cleansing activity within the Borough	The Council will review its street cleaning and cleansing operations, including its role and responsibilities with its partners, and also the associated enforcement activity with a view to improving the cleanliness of the Borough	0.000	-1.168	0.000
			-2.465	-4.115	-0.263
Education Excellence	Education Travel Support	Savings from the Transformation Programme Project “Education Travel Support”	-1.210	-1.090	0.000
Children’s Social Care	Initiatives to reduce costs of providing support packages	Includes expansion of the Aiming High Team to provide support and expanding operation of Springbrook to provide additional support packages.	-1.000	-0.300	0.000
Health & Wellbeing	Public Health Grant	Utilising additional and existing Public Health funding to support universal services within Children’s Services	-0.800	0.000	0.000
			-3.010	-1.390	0.000
			-5.475	-5.505	-0.263

Council Budget Summary 2025/2026

Appendix C

Line Ref	Service	Base Budget 2024/2025 £	Draft Base Budget 2025/2026 £
1	Strategic Management	4,019,800	4,019,800
2	Adult Social Care	122,334,800	136,819,400
3	Children's Social Care	82,171,100	88,371,100
4	Communities	11,808,450	11,583,450
5	Corporate Resources	12,571,500	13,471,500
6	Economic Growth and Housing	7,064,550	7,064,550
7	Education Excellence	18,179,350	20,069,350
8	Health and Wellbeing	19,890,500	19,890,500
9	Highways and Public Protection	11,081,800	11,081,800
10	Operational In-House Services	18,554,250	19,954,250
11	Property & Building Services	-396,400	-396,400
12	Other Services	2,674,100	2,674,100
13	Net Cost of Services	309,953,800	334,603,400
14	Debt Repayment / Net Interest	8,315,800	11,052,800
15	Sub total	318,269,600	345,656,200
16	Levies	37,290,100	37,749,100
17	Application of Provisions / Reserves / Corporate Expenditure	3,351,350	535,800
18	Capitalisation	-3,566,000	-1,566,000
19	Corporate / One-Off Savings	-611,100	-711,100
20	Inflationary Items to be Allocated	-74,067	7,606,338
21	Corporate Savings to be allocated to Services	-440,000	-1,240,000
22	Total	354,219,883	388,030,338
23	Specific Government Grants	-23,881,800	-23,881,800
24	Non-Specific Government Grants	-71,857,750	-87,781,630
25	Total	258,480,333	276,366,908

Council Budget Summary 2025/2026

Line Ref	Service	Base Budget 2024/2025 £	Draft Base Budget 2025/2026 £
26	Increase in General Balances	13,977,000	1,500,000
27	Total Budget Requirement	272,457,333	277,866,908
28	Add Parish Precepts	1,474,173	1,474,173
29	Total Net Expenditure	273,931,506	279,341,081
<u>SUMMARY OF GENERAL BALANCES</u>			
30	Balances Brought Forward	16,414,057	18,091,057
31	Increase in Balances	13,977,000	1,500,000
32	Forecast Utilisation in 2024/25	-12,300,000	0
33	Balances Carried Forward	18,091,057	19,591,057

<u>FINANCING OF SEFTON'S BUDGET REQUIREMENT</u>		
Total Budget Requirement	272,457,333	277,866,908
Less: Revenue Support Grant	0	0
Top-Up Grant	-26,174,007	-30,210,560
Business Rates Receipts	-76,700,273	-66,546,441
Collection Fund Deficit / Surplus (-) - Council Tax	-1,298,585	-2,570,517
Sefton Requirement from Council Tax	<u>168,284,468</u>	<u>178,539,390</u>
Band D Council Tax	1,946.41	2,043.54
Illustrative Council Tax Increase	4.99%	4.99%

Note that the Sefton Requirement from Council Tax and quoted Band D Council Tax in 2025/2026 is based on a Council Tax increase that is for illustrative purposes only.

Capital Programme 2025/26 to 2027/28

<u>Capital Scheme</u>	Budget		
	2025/26 £	2026/27 £	2026/27 £
Adult Social Care			
Disabled Facilities Grants	4,200,000	-	-
ICT Development & Transformation	18,000	-	-
Short Term Assessment Unit	2,393,034	546,034	-
New Directions Programme	350,000	-	-
Communities			
Local Authority Housing Fund	1,229,235	-	-
Leisure Centres – Essential Works	15,566	-	-
Libraries Projects	139,361	-	-
Corporate Resources			
ICT Equipment Refresh	90,000	-	-
Economic Growth & Housing			
Strategic Acquisitions – Ainsdale	469,303	-	-
Marine Lake Events Centre	37,866,796	21,280,701	-
Enterprise Arcade	35,418	-	-
The Strand – Repurposing Programme	12,237,724	-	-
Council Housing Early Acquisitions Scheme	750,000	-	-
Council Housing at Buckley Hill Lane	1,068,122	-	-
Southport Pier	86,580	-	-
Red Rose Park Works	40,000	-	-
Temporary Accommodation Project - Block Allocation	1,000,000	-	-
Education Excellence			
Schools Programme	7,198,364	60,637	-
Sporting Betterment of Schools	667,343	-	-
Special Educational Needs & Disabilities	2,049,812	-	-
Highways and Public Protection			
Accessibility	350,000	-	-
Healthy Lifestyles	317,570	-	-
A59 Route Management Strategy	3,563,357	-	-
Strategic Planning	4,084,779	-	-
Traffic Management & Parking	1,067,000	-	-
Southport Eastern Access	8,879,030	8,805,334	-
Maritime Corridor	7,531,761	-	-
Bridges & Structures	1,750,000	-	-
Street Lighting LED Upgrade	608,565	-	-
Urban Traffic Control	315,018	-	-
Highways Capitalisation	1,616,000	1,616,000	1,616,000
Operational In-House Services			
Coastal Erosion and Flood Risk Management	1,551,809	1,420,273	-
Parks Schemes	728,241	-	-
Tree Planting Programme	94,879	94,879	-
Golf Driving Range Developments	280,280	-	-

Agenda Item 9

Appendix D

	2025/26 £	2026/27 £	2027/28 £
Green Sefton – Vehicles, Plant & Machinery	326,237	-	-
Refuse Collection & Recycling	2,644,182	-	-
Food Waste Collection	500,000	-	-
Vehicle Replacement Programme	1,054,494	-	-
Vehicle Replacement Programme – new allocation	4,276,500	-	-
Property and Building Services			
Council Wide Essential Maintenance	100,000	100,000	-
<u>Council Wide Essential Maintenance Phase 2:</u>			
- Corporate Buildings	2,425,000	2,366,296	-
- Other Civic Buildings	1,211,920	-	-
- Adult Social Care	168,464	-	-
- Car Parks	80,000	-	-
- Leisure, Health & Wellbeing	204,000	-	-
- Green Sefton	70,000	-	-
- Localities	103,190	-	-
- Economic Growth	-	169,000	-
- Asset Management	11,612	-	-
Demolition of Vine House	1,500,000	-	-
<u>Total Programme</u>	119,318,546	36,459,154	1,616,000

Grant Allocations 2025/26 to 2027/28 **(indicative amounts)**

<u>Capital Grant</u>	Block Allocation		
	2025/26 £	2026/27 £	2027/28 £
Adult Social Care			
Disable Facilities Grant *	5,985,019	5,985,019	5,985,019
Education Excellence			
Basic Needs	1,684,671	-	-
Devolved Formula Capital (direct school allocation) **	341,144	341,144	341,144
Schools Condition Allocation **	2,241,878	2,241,878	2,241,878
Highways and Public Protection			
City Region Sustainable Transport Settlement ***	8,466,000	7,516,000	7,516,000
<u>Total</u>	18,718,712	16,084,041	16,084,041

* The 2025/26 Disable Facilities Grant allocation has been confirmed by Ministry of Housing, Communities and Local Government. £4.2m has been allocated to the core DFG grant budget and is included in the list of 2025/26 Capital Schemes shown above.

** Indicative grant allocations based on amounts received in 2024/25. The actual allocations for 2025/25 and future years are still to be confirmed by the Department for Education.

*** 2025/26 and 2026/27 CRSTS allocations have been confirmed by the Liverpool City Region Combined Authority.