Public Document Pack

Sefton Council

| | |
|---|---|
| MEETING: | CABINET |
| DATE: | Thursday 16th February, 2017 |
| TIME: | 10.00 am |
| VENUE: | Birkdale Room, Town Hall, Southport |

DECISION MAKER: **CABINET**

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


| | |
|---|---|
| COMMITTEE OFFICER: | Steve Pearce<br>Democratic Services Manager |
| Telephone: | 0151 934 2046 |
| E-mail: | steve.pearce@sefton.gov.uk |


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.

This page is intentionally blank

# A G E N D A

Items marked with an * involve key decisions

| | Item No. | Subject/Author(s) | Wards Affected | |
|---|---|---|---|---|
| | 1 | **Apologies for Absence** | | |
| | 2 | **Declarations of Interest**<br>Members are requested to give notice of any disclosable pecuniary interest, which is not already included in their Register of Members' Interests and the nature of that interest, relating to any item on the agenda in accordance with the Members Code of Conduct, before leaving the meeting room during the discussion on that particular item. | | |
| | 3 | **Minutes of Previous Meeting**<br>Minutes of the meeting held on 12 January 2017 | | (Pages 5 - 16) |
| * | 4 | **Revenue and Capital Budget Update 2016/17**<br>Report of the Head of Corporate Resources | All Wards | (Pages 17 - 36) |
| * | 5 | **Treasury Management Policy and Strategy 2017/18**<br>Report of the Head of Corporate Resources | All Wards | (Pages 37 - 70) |
| * | 6 | **The Prudential Code for Capital Finance in Local Authorities - Prudential Indicators 2017/18**<br>Report of the Head of Corporate Resources | All Wards | (Pages 71 - 82) |
| * | 7 | **Robustness of the 2017/18 Budget Estimates and the Adequacy of Reserves - Local Government Act 2003, Section 25**<br>Report of the Head of Corporate Resources | All Wards | (Pages 83 - 96) |
| * | 8 | **Southport Pier Project - Procurement Proposals**<br>Report of the Head of Inward Investment and Employment | Cambridge; Dukes | (Pages 97 - 102) |

| | | | | |
|---|---|---|---|---|
| * | 9 | **South Sefton College – Proposed Merger with Hugh Baird College**<br><br>Report of the Head of Schools and Families | Ford; Litherland; Netherton and Orrell; St. Oswald | (Pages 103 - 118) |
| * | 10 | **Sport England Grant**<br><br>Report of the Director of Public Health | All Wards | (Pages 119 - 124) |

**THE "CALL IN" PERIOD FOR THIS SET OF MINUTES ENDS AT 12 NOON ON WEDNESDAY 25 JANUARY 2017. MINUTE Nos 73, 74 AND 80 ARE NOT SUBJECT TO "CALL – IN."**

# CABINET

## MEETING HELD AT THE BIRKDALE ROOM, TOWN HALL, SOUTHPORT ON THURSDAY 12TH JANUARY, 2017

PRESENT: Councillor Maher (in the Chair)
Councillors Hardy, Atkinson, Cummins, John Joseph Kelly, Lappin, Moncur and Veidman

ALSO PRESENT: Councillors Booth, Hands and McGuire

## 69. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Fairclough.

## 70. DECLARATIONS OF INTEREST

In accordance with Paragraph 9 of the Council's Code of Conduct, the following declaration of personal interest was made and the Member concerned remained in the room during the consideration of the item:

| Member | Minute No. | Nature of Interest |
|---|---|---|
| Councillor Moncur | 77 – Re-procurement of a new Careers Information Advice and Guidance for Young People | His wife is employed by the company referred to in the report |

## 71. MINUTES OF PREVIOUS MEETING

**Decision Made:**

That the minutes of the Cabinet meetings held on 1 and 8 December 2016 be confirmed as a correct record.

## 72. REVENUE AND CAPITAL BUDGET UPDATE 2016/17

The Cabinet considered the report of the Head of Corporate Resources which provided details of the current forecast outturn position for the Council for 2016/17 as at the end of October 2016 which was informed by the latest analysis of expenditure and income due to the Council, in addition to the progress in delivering approved savings; the current forecast on Council Tax and Business Rates collection for 2016/17; and the current position of the Capital Programme.

**Decision Made:** That

(1) the forecast deficit outturn position of £2.827m, as at the end of October 2016, and the approach currently been undertaken to reduce this in advance of the year end be noted;

(2) the progress to date on the achievement of approved savings for 2016/17 and residual savings carried forward from previous years be noted;

(3) the forecast position on the collection of Council Tax and Business Rates for 2016/17 be noted; and

(4) the current position of the 2016/17 Capital Programme be noted.

**Reasons for Decision:**

To ensure Cabinet are informed of the forecast outturn position for the revenue budget and delivery of savings as at end of October 2016; the updated forecast of the outturn position with regard to the collection of Council Tax and Business Rates and the latest forecast outturn of the Capital Programme.

**Alternative Options Considered and Rejected:**

None.

**73. BUDGET 2017/18 AND MEDIUM TERM FINANCIAL PLAN 2018/19 - 2019/20**

The Cabinet considered the report of the Chief Executive and Head of Corporate Resources which provided details of the development of a 3 year financial strategy for the period 2017/18 – 2019/20 (the budget plan period) which reflected the current financial challenges facing the Council during the period, the proposed approach to meeting those challenges and how they reflect the Council’s statutory requirement to remain financially sustainable and the desire to deliver the Sefton 2030 Vision and the Councils Core Purpose.

Given the scale of the financial and service challenges facing the Council, this was a complex and detailed report, which provided for a financial balanced budget, but this would require major and difficult decisions on how the council delivers it services, the level at which it continues to deliver them and Council Tax implications.

The report presented a financially balanced strategy and some areas of change were more specific than others. Where possible the change was explained at the detailed budget level and where this was not possible a budget planning assumption had been made based on the best available information. This was sufficiently robust to approve the budget and associated policy changes, whilst recognising that the details would continue to be refined over the period of the strategy.

This report set out the detailed approach to the strategy, which included:

- The Sefton 2030 Vision and the approved Core Purpose
- The national and local financial context within which the Council as operating;
- The funding gap facing the Council for the 3 year period 2017/18 to 2019/20;
- The approach to delivering both the aspirations of the Sefton 2030 Vision and a financially sustainable council;
- The financial, service and community impact of the Budget including the reserves position of the Council; and
- The draft capital programme for the 3 year period.

The report also indicated that as part of the budget plan, the Council was developing a major change programme to enable the Council to be sustainable and fit for purpose, the Framework for Change, which was made up of 4 pillars which would help the Council deliver against the financial challenges:

- Economic Growth
- Public Sector Reform
- Service delivery options and
- Strategic Investment

At this stage the report only sought approval to consult communities, partners, key stakeholders and employees, as appropriate, on the options prior to any consideration by Council.

The Chair indicated that due to central government policy, the Council will have lost 51% of Government funding between 2011 and 2020 and the proposals set out in the report would require some difficult decisions to be taken at the Budget Council meeting, but the Council would look to minimise the impact on frontline services and continue to protect the most vulnerable whilst driving economic growth. The Chair also stated that contrary to media reports, the report did not contain any proposals to close The Atkinson in Southport and there were no plans to close the centre.

The Cabinet Member – Regulation, Compliance and Corporate Services commended the detailed work undertaken by Officers during the last 18 months to produce the proposals set out in the report, which would ensure the protection of the most vulnerable people in the Borough.

**Decision Made**: That

(1) the update of the Medium Term Financial Plan for the period 2017/18 to 2019/20 which included the implications of the provisional local government settlement be noted;

(2) approval be given to the commencement of appropriate activity in advance of any formal approval, including for example, informal consultation with employees and engagement with partners;

(3) it be noted that the proposals contained within the report will form the basis of a three-year budget plan to be presented to the Budget Council meeting on 2 March 2017;

(4) the current levels of facility time and associated arrangements for the whole period of the budget plan be approved; and

(5) it be noted that officers will comply with HR policies and procedures including relevant consultation with Trade Unions and reports to the Cabinet Member - Regulatory, Compliance & Corporate Services.

**Reasons for Decision:**

To ensure that Cabinet is fully aware of the latest Medium Term Financial Plan position and to consider projects and options which would need to be phased over the three budget plan. This would support the Council in its duty to agree a budget for 2017/18 and the level of 2017/18 Council Tax before the statutory date of 10 March 2017, and maintain a sustainable financial future for the Council by agreeing a balanced three year financial plan for 2017/18 to 2019/20.

**Alternative Options Considered and Rejected:**

The budget proposals contained within the report would form the basis of a three-year budget plan to be presented to the Budget Council meeting on 2 March 2017. It was a legal requirement to set a balanced budget and ensure the budget plan was robust. As such, any changes to the proposals contained within the report would need to ensure this requirement was still met.

## 74. COUNCIL TAX REDUCTION SCHEME 2017/18 AND COUNCIL TAX BASE 2017/18

The Cabinet considered the report of the Head of Corporate Resources which provided details of the annual review of the Council Tax Reduction Scheme that had been undertaken together with the updated Council Tax Base for both Sefton Council and for each Parish Area for 2017/18.

The Cabinet Member – Regulation, Compliance and Corporate Services commended the work undertaken by Officers to produce the proposals set out in the report, which would ensure that no changes are made to the existing Local Council Tax Reduction Scheme for working age claimants, and thereby help the most vulnerable people in the Borough.

**Decision Made:** That

(1) the contents of the Council Tax Reduction Scheme 2016/17 review be noted;

(2) the Council be recommended to make no changes to the existing Local Council Tax Reduction Scheme for 2017/18 for working age claimants;

(3) the Head of Corporate Resources be granted delegated to implement any minor textual changes to the Council Tax Reduction Scheme for 2017/18; and

(4) the Council be recommended to approve the Council Tax Base for 2017/18 as set out in Annex A of the report.

**Reasons for Decision:**

Council Tax Reduction Scheme

Each financial year the Council must consider whether to revise or replace its Local Council Tax Reduction Scheme. The Council must approve and adopt the 2017/18 Council Tax Reduction Scheme by the 31 January 2017 to take effect from 1 April 2017.

Any decision to revise or replace the scheme would require compliance with statutory provisions in accordance with The Local Government Finance Act 2012 (Chapter 17), Schedule 4.

The report comments on the impact of various changes made to the scheme for the current year 2016/17 together with the impact of the Government Welfare Reform changes. After consideration of the factors outlined in the report it is proposed that the Local Council Tax Reduction Scheme for 2017/18 remains unchanged for working age claimants.

Council Tax Base

In accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 1992, as amended, the Council was required to set a tax base for both Sefton Council and for each Parish Area for 2017/2018.

**Alternative Options Considered and Rejected:**

The Council revised its local Council Tax Reduction Scheme in 2016/17 following an extensive consultation process. Any change for the 2017/18 scheme would require financial modelling against potential impacts from the welfare reforms that are due to be introduced. Final details of the welfare reforms have yet to be agreed and disclosed by Department for Work and Pensions. As a result no alternative options for change have been considered for 2017/18.

**75. THE FUTURE PROVISION OF TRANSACTIONAL, FINANCIAL, HR AND INFORMATION SERVICES**

Further To Minute No. 6 of the meeting held on 26 May 2016, the Cabinet considered the report of the Head of Corporate Resources which provided details of the work undertaken to determine the future business requirements for Transactional Finance, Human Resources and Information Technology Services for the Council from October 2018 and the recommended delivery model for each service based on agreed evaluation criteria and the supporting transition plan that will be required.

**Decision Made:** That

(1) the Target Operating Models for the Council Services as set out within the report be approved;

(2) the evaluation criteria that had been applied to determine the appropriate delivery models for each service be noted;

(3) approval be given to the following Councils services, namely, Transactional Human Resources and Payroll, Revenues, Benefits, Customer Services and Accounts Payable been delivered ‘in-house’ by the Council from October 2018;

(4) approval be given to the Councils ICT service been delivered by an external prime contractor;

(5) approval be given to the commencement of an OJEU compliant process for the procurement of an external prime ICT contractor; and

(6) in order to deliver the transition plans for each service, approval be given to the acquisition of additional capacity and skills to supplement current Council staff and that this cost which is

estimated to be £0.4m be met from the Councils earmarked transformation reserve.

**Reasons for Decision:**

To support the provision of services that meet the business requirements of the Council from October 2018. The delivery options selected reflect the outcome from a transparent evaluation process in order to obtain the most appropriate solution for the Council.

**Alternative Options Considered and Rejected:**

All available options have been considered and are reflected within the report.

**76. SEFTON COAST PLAN**

The Cabinet considered the report of the Executive Director which provided details of the draft Sefton Coast Plan which had been prepared by Sefton Council on behalf of and with the participation and input of the Sefton Coast Landscape Partnership, which comprised of Sefton Council, Natural England, the National Trust, the RSPB, the Mersey Forest, and Lancashire Wildlife Trust. The Plan sets out by theme, the challenges for delivery, and the determination of priorities for action across a broad range of partners and communities, seascapes and landscapes. It takes an integrated approach to the management of the coast as many of the issues need to be addressed at a coastal scale, or on a thematic basis.

Sefton Council had led a visioning exercise for the communities of Sefton to imagine the Borough they wished to live and work in - Sefton Vision 2030. The coast was identified as an important asset to be valued and cared for and the Sefton Coast Plan sets a course to deliver to the same time frame as Vision 2030, which was a life-span of 15 years from publication.

The Executive Director reported that the Sefton Coast Landscape Partnership had welcomed the content of draft Plan at a meeting held on 6 January 2017 but they had indicated that they wished to hold a further meeting in the near future to consider the draft plan in more detail before they formally approve the draft Plan and consequently she requested that the Cabinet Member – Locality Services be granted delegated authority to give final approval for the plan to be approved for the purposes of public consultation.

**Decision Made:**

That the comments made by the Sefton Coast Landscape Partnership Board on 6 January 2016 be welcomed and that the Cabinet Member – Locality Services be granted delegated authority to give final approval for the draft Plan to be approved for the purposes of public consultation. The results of the consultation to be reported back to Cabinet with any suggested amendments presented in the context of a final draft version of the Sefton Coast Plan.

**Reasons for Decision:**

The development of the Sefton Coast Plan is a requirement of the Local Plan and will also support the aspirations developed as a result of the Sefton Vision 2030.

**Alternative Options Considered and Rejected:**

None.

## 77. RE-PROCUREMENT OF A NEW CAREERS INFORMATION ADVICE AND GUIDANCE FOR YOUNG PEOPLE

The Cabinet considered the report of the Head of Inward Investment and Employment which provided details of the business case for a review of the contract for the delivery of an Information, Advice and Guidance service for young people, which will ensure both a cost saving and a better alignment with the Council's Public Sector Reform programme and the Liverpool City Region plans for a Careers Hub under the Devolution Deal.

**Decision Made:** That

(1) approval be given to a contract extension of 12 months from 1 April 2017 with the current contractor, to allow relevant procurement rules to be followed, including ensuring they are EU compliant in order to be used as match funding from the European Social Fund; and

(2) the Chief Executive be requested to write to the Chief Executive of the current contract provider, informing him of the contract extension.

**Reasons for Decision:**

Re-procurement of the contract offers a number of advantages, primarily to review the budget allocation in light of further budget reductions and changes in the volumes and cohort eligible for support. It also allows an update of the service specification in light of a number of changes since the contract was last let, including changes to statutory requirements. It would allow for a closer alignment and delivery with other internal priorities such as troubled families and looked after children. It offers an additional opportunity to potentially draw down match funding from European Social Fund (ESF) which may never again be offered due to Brexit.

In order to be EU compliant and potentially draw down match funding from ESF, it was necessary to follow the appropriate procurement process. In order to do this, a contract extension was required with the current contractor to avoid a hiatus in delivery.

**Alternative Options Considered and Rejected:**

Other options had been considered in detail for this service through an options analysis which had been shared with Cabinet Member, Regeneration and Skills. The main option which had been investigated was the extension of the current contract on existing terms for two years, which would be permissible under the existing agreement. This had been rejected on the grounds that better value for money can be gained from re-procurement.

**78. REVIEW OF PROCUREMENT PROCESSES**

Further to Minute No. 31 of the meeting of the Audit and Governance Committee held on 7 December 2016, the Cabinet considered the report of the Head of Commissioning Support and Business Intelligence which provided details of the outcome of recent procurement processes and subsequent audit work, which included the revision of the Council's Contract Procedure Rules in the Council Constitution

**Decision Made:** That

(1) the work that had been undertaken to review the Council's procurement processes, rules and guidance be endorsed;

(2) the revised Contract Procedure Rules and the changes made be noted and endorsed;

(3) it be noted that the progress made in delivering the Procurement Action Plan and a summary of all OJEU compliant processes that are undertaken for a period of 12 months will be reported by the Head of Commissioning Support and Business Intelligence to each subsequent meeting of the Audit and Governance Committee; and

(4) the Head of Commissioning Support and Business Intelligence be requested to submit a report on a Procurement Social Value Action Plan to a future meeting of the Cabinet.

**Reasons for Decision:**

Procurement was an Executive function and in light of the importance of good procurement practice for the achievement of value for money, it was necessary to provide assurance to the Cabinet on action taken in respect of recent issues that had arisen in this regard.

**Alternative Options Considered and Rejected:**

In light of the importance of correct procurement practice to the achievement of value for money and the decision of Audit and Governance Committee to refer the revised Contract Procedure Rules to the Cabinet for them to receive assurance as to the action taken and to note the changes made to the Contract Procedure Rules, no alternative options were considered.

**79. PARKING ENFORCEMENT CONTRACT / COMMUNITY WARDENS**

The Cabinet considered the report of the Head of Regulation and Compliance which sought approval to an extension of twelve months to the existing contract for Parking and Environmental Enforcement and to negotiate with the one tenderer on their submission.

**Decision Made:** That

(1) approval be given to the extension of the current contract for parking enforcement and environmental enforcement for twelve months until the 31 March 2018;

(2) approval be given to officers entering into a negotiated process with tenderer No 1 in relation to the proposed new contract, due to competition being absent for Technical Reasons;

(3) Officers report on the outcome of the negotiated process to the Cabinet Member - Regulation, Compliance and Corporate Services;

(4) following on from the negotiated process and subject to it being successful, the Cabinet Member - Regulation, Compliance and Corporate Services request the Head of Regulation and Compliance to draw up an appropriate contract with tenderer No 1; and

(5) it be noted that the proposal was a Key Decision but had not been included in the Council's Forward Plan of Key Decisions. Consequently, the Leader of the Council and the Chair of the Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) had been consulted under Rule 27 of the Access to Information Procedure Rules of the Constitution, to the decision being made by the Cabinet as a matter of urgency on the basis that it was impracticable to defer the decision until the commencement of the next Forward Plan because there was a need to ensure that an enforcement provision was in place for 1 April 2017 and agreement was needed to be reached by early January 2017 with the existing provider and sole tenderer.

**Reasons for Decision:**

To ensure that the service of parking and environmental enforcement was provided to the Council at the most advantageous rate.

When this service was originally procured, it was procured on the basis of a core contract period of 5 years with no optional extension periods. The value of this contract was above the current EU Spend Threshold. Where an extension period was not provided for within the original OJEU Contract Notice and the value of the contract is above the current EU Spend Threshold, the Council's Contract Procedure Rules allow the Council to grant an extension, on a short term basis, in exceptional circumstances. Officers consider that the combination of factors in this case (i.e. single tenderer; submitted tender price beyond current budgetary provision; uncertain future budgetary position; statutory duty to provide enforcement service; and the Council's desire to develop an enhanced service to that currently provided) represent exceptional circumstances and are therefore proposing a contract extension as the most appropriate immediate course of action. The value of the proposed contract extension requires authorisation by Cabinet.

**Alternative Options Considered and Rejected:**

None.

**80. URGENT DECISION BY THE LEADER OF THE COUNCIL - APPROVAL TO SERVE A S220 HIGHWAYS ACT 1980 NOTICE ON PERSIMMON HOMES NW LTD IN RELATION TO THEIR DEVELOPMENT AT SCHOOL LANE, MAGHULL**

The Cabinet considered the report of the Head of Locality Services - Commissioned which provided details of an urgent decision taken by the Leader of the Council on 21 December 2016 to give approval to the serving of a Section 220 Notice on Persimmon Homes North West Ltd, relating to their proposed development at School Lane, Maghull pursuant to Sections 219-225 of the Highways Act 1980 and to waive the call in period due to the time constraints of the Christmas period and the serving of the statutory Notice within six weeks of the Building Commencement Notice.

**Decision Made:** That

(1) the urgent decision made by the Leader of the Council be noted; and

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

because the statutory period for issuing the Notice would expire during the seasonal bank holiday and shut down period.

**Reasons for Decision:**

Only the Council acting in its capacity as the Highway Authority can serve a Notice under these provisions on a landowner.

**Alternative Options Considered and Rejected:**

None.

**Report to:** Cabinet **Date of Meeting:** 16 February 2017

**Subject:** Revenue and Capital Budget Update 2016/17

**Report of:** Head of Corporate Resources **Wards Affected:** All

**Is this a Key Decision?** No **Is it included in the Forward Plan?** Yes

**Exempt/Confidential** No

---

**Purpose/Summary**

To inform Cabinet of: -

i) The current forecast outturn position for the Council for 2016/17 as at the end of December. This forecast will be informed by the latest analysis of expenditure and income due to the Council, in addition to the progress in delivering approved savings;
ii) The current forecast on Council Tax and Business Rates collection for 2016/17; and
iii) The current position of the Capital Programme.

**Recommendation(s)**

Cabinet is recommended to:-

i) Review and consider the forecast deficit outturn position (£0.063m) as at the end of December 2016, together with the impact on the Council's General Fund Reserves position;
ii) Review the progress to date on the achievement of approved savings for 2016/17 and residual savings carried forward from previous years;
iii) Note the forecast position on the collection of Council Tax and Business Rates for 2016/17;
iv) Note the current position of the 2016/17 Capital Programme; and
v) Receive a verbal update and consider the views of Overview and Scrutiny Committee in relation to the 2017/18 Budget and Medium Term Financial Plan 2017/18 to 2019/20.

**How does the decision contribute to the Council's Corporate Objectives?**

| | Corporate Objective | Positive Impact | Neutral Impact | Negative Impact |
|---|---|---|---|---|
| 1 | Creating a Learning Community | • | | |
| 2 | Jobs and Prosperity | | • | |
| 3 | Environmental Sustainability | • | | |
| 4 | Health and Well-Being | | • | |
| 5 | Children and Young People | | • | |
| 6 | Creating Safe Communities | | • | |
| 7 | Creating Inclusive Communities | | • | |
| 8 | Improving the Quality of Council Services | | • | |

| | | | | |
|---|---|---|---|---|
| | and Strengthening Local Democracy | | | |

**Reasons for the Recommendation:**
To ensure Cabinet are informed of the forecast outturn position for the 2016/17 revenue and capital budgets as at the end of December 2016 and to provide an updated forecast of the outturn position with regard to the collection of Council Tax and Business Rates.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

**i) 2016/17 Revenue Budget**

Any under-achievement of the approved revenue budget savings for 2016/17 (and residual savings from previous years) will need to be financed from within any surplus identified within other areas of the 2016/17 budget, or from the Council's general balances.

The current financial position on approved savings indicates that about £6.789m are at significant risk of not being achieved (the "Red" marked items in Annex A). Due to the time required to implement large projects, some savings will not be achieved (or achieved in full) in 2016/17. Work has been undertaken to assess the likely achievement of these items in 2017/18 and this is reflected in the proposed budget package that was reported to Cabinet on 12 January 2017.

As at the end of December, the surplus in the remainder of the Council's Budget reduces the potential deficit to £0.063m. Should other budget savings not be identified during the year, then an equivalent level of reserves would be required to support the budget.

**(B) Capital Costs**

As at the end of December, expenditure on the Capital Programme is £11.100m (46.2%) which is below the profiled budget for this point in the financial year. As a result individual schemes will require careful monitoring of both delivery and financial management each month in order that a clear assessment of when outputs will be delivered can be made and appropriate re-profiling can take place.

**Implications:** None

**Legal:**

**Human Resources** None

**Equality**

| | |
|---|---|
| No Equality Implication | x |
| Equality Implications identified and mitigated | |

Equality Implication identified and risk remains ☐

**Impact on Service Delivery:**
None.

**What consultations have taken place on the proposals and when?**

The Head of Corporate Resources is the author of the report (FD4490/17)

The Head of Regulation and Compliance has been consulted and has no comments on the report. (LD 3773/17)

**Are there any other options available for consideration?**
None.

**Implementation Date for the Decision**
Immediately following the call-in period following the publication of the Cabinet Minutes

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

**Background Papers:** None

# Agenda Item 4

1. **Introduction**

1.1 The Council approved the revenue budget for 2016/17 and this required savings of £37m to be implemented during the year in order for a balanced budget to be delivered. The approved budget also included the use of balances totalling £0.869m (increasing to £0.969m following the approval to continue the modern apprenticeship scheme as agreed by Cabinet in July), pending identification of any alternative means of financing.

1.2 This report therefore presents an assessment of the forecast revenue outturn position for 2016/17 and the latest position on the achievement of the agreed savings for 2016/17 (£29.171m), plus the ongoing savings requirements carried forward from previous years.

1.3 The report also outlines the current position regarding other key income streams for the Authority, namely Council Tax and Business Rates, as variations against expected receipts in these two areas will also affect the Council's financial position in future years.

1.4 An updated position with regard to the 2016/17 Capital Programme is also provided as at the end of December, following the recently approved additions to the programme.

**2. Summary of Forecast Outturn Position as at the end of December 2016**

2.1 At the end of December 2016, a forecast deficit is projected on the Council's outturn budget of £0.063m. This is shown in the table below:

| | Budget | Forecast Outturn | Variance | Position previously reported |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Services** | | | | |
| Strategic Management | 2.974 | 2.949 | (0.025) | 0 |
| | | | | |
| Strategic Support Unit | 2.891 | 2.765 | (0.126) | (0.084) |
| | | | | |
| Adult Social Care | 86.172 | 89.081 | 2.909 | 3.061 |
| Children's Social Care | 27.548 | 28.461 | 0.913 | 1.004 |
| Communities | 10.572 | 9.900 | (0.672) | (0.592) |
| Corporate Resources | 4.069 | 3.666 | (0.403) | (0.350) |
| Health & Wellbeing | 23.311 | 22.736 | (0.575) | (0.375) |
| Inward Investment and Employment | 2.516 | 2.610 | 0.094 | 0.174 |
| Locality Services - Commissioned | 18.586 | 18.980 | 0.394 | 0.370 |
| Locality Services - Provision | 9.381 | 10.249 | 0.868 | 1.030 |
| Regeneration and Housing | 4.653 | 4.532 | (0.121) | (0.025) |
| Regulation and Compliance | 4.428 | 4.019 | (0.409) | (0.214) |
| Schools and Families | 25.773 | 25.224 | (0.549) | (0.645) |
| | | | | |
| **Total Service Net Expenditure** | **222.874** | **225.068** | | |
| | | | | |
| Reversal of Capital Charges | (13.376) | (13.376) | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| Council Wide Budgets | 4.141 | 1.906 | (2.235) | (0.527) |
| Levies | 33.769 | 33.769 | 0 | 0 |
| General Government Grants | (34.803) | (34.803) | 0 | 0 |
| | | | | |
| **Total Net Expenditure** | **212.605** | **212.564** | | |
| | | | | |
| **Forecast Year-End Deficit** | | | **0.063** | **2.827** |

2.2 It can be seen from the table at paragraph 2.1 that a small deficit of £0.063m is forecast for the year. This compares favourably with the £2.827m that was previously forecast and reflects the identification of a number of remedial measures and revised forecasts that will be implemented.

2.3 The key changes in the year end forecast since the previous period are:-

- Following a comprehensive review, the centrally held budgets are now forecasting a significant underspend. In addition, a further £0.172m of Senior Management savings have been identified;

- The Adult Social Care position has improved by £0.152m. During the period there has been increased pressure on the Community Care budget of £0.439m, however this has been offset by mitigating actions of £0.540m along with a further contribution from the Care Act funding of £0.045m. As with previous years, due the volatility of these demand led budgets, careful monitoring will need to take place during the remainder of the year;

- The Locality Services Provision service deficit position has reduced by £0.162m through a temporary reduction in supplies and services and premises relayed expenditure. It should be noted that a significant deficit position remains on the overall budget which is currently the subject of a detailed review.

- The Health and Wellbeing service has increased its surplus by £0.200m. Contributing to this increase is additional Sports Income (£0.080m), together with expenditure reductions in respect of Public Health administration (£0.060m), Health Checks (£0.040m) and Health Protection (£0.030m).

- The surplus on the Regulation and Compliance service has increased by £0.195m. The continued impact of vacant posts, additional income and control over non-essential spend, (the need for which has been emphasised across all Council services) have contributed to the improved position.

2.4 Following the work to bring the overall budget back into a forecast balanced position, it will be important that detailed monitoring continues throughout the remainder of the year, as there may still be variations that emerge, most notably in Adults and Children's Social Care and also the council's winter maintenance budgets. These budgets will be the focus of scrutiny during the last 3 months of the financial year.

## 3. Approved savings for 2016/17 (and previous years carry forward savings)

3.1 The table at **Annex A** identifies the current position of the agreed savings for 2016/17. They are analysed into four categories: -

- Savings achieved to date (Blue);
- Progress is satisfactory (Green);
- Outcome is unknown and is at risk of not being fully achieved (Amber); and
- Known shortfalls, or significant risk of not being achieved (Red).

This approach is designed to ensure complete transparency, effective risk management and improved consultation and engagement.

It should be noted that individual savings may be categorised into more than one area; for example, part of the work to achieve a required saving may be on track (and a value can be shown in Green), whilst another element is potentially at risk (and therefore shown as Amber).

3.2 The position as at the end of December 2016 is that £28.724m (80%) of the total required savings have been delivered or are on plan; with £0.403m (1%) at some risk of not being fully achieved. This leaves a further £6.789m (19%) of savings that are unlikely to be achieved in 2016/17 (identified as "Red"). As previously reported, mitigating actions elsewhere in the budget have led to this non-delivery being offset and a broadly balanced position being reported.

3.3 As with previous years, all budget savings will continue to be closely managed, with regular reports being presented to Cabinet and Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services). Officers will also continue to be mindful of the ongoing financial position and take appropriate action where further efficiencies can be found which do not require a change of policy.

## 4. Council Tax Income – Update

4.1 Council Tax income is shared between the billing authority (Sefton Council) and the two major precepting authorities (the Fire and Rescue Authority, and the Police and Crime Commissioner) pro-rata to their demand on the Collection Fund. The Council's Budget included a Council Tax Requirement of £111.644m for 2016/17 (including Parish Precepts), which represents 85.4% of the net Council Tax income of £130.689m.

4.2 The forecast outturn at the end of December 2016 is a surplus of £2.367m (an improvement of £0.3m to that previously reported). This is primarily due to:-

- The surplus on the fund at the end of 2015/16 being higher than estimated at -£0.462m;

- Gross Council Tax Charges in 2016/17 being higher than estimated at -£0.759m;

- Council Tax Reduction Scheme discounts being lower than estimated at - £0.588m;

- Exemptions and Discounts (including a forecasting adjustment) being lower than estimated at -£0.403m; and

- Bad Debt Provision being lower than estimated at -£0.155m.

4.3 Due to Collection Fund regulations, the Council Tax surplus will not be transferred to the General Fund in 2016/17 but will be carried forward to be distributed in future years.

**5. <u>Business Rates Income – Update</u>**

5.1 Since 1 April 2013, Business Rates income has been shared between the Government (50%), the Council (49%) and the Fire and Rescue Authority (1%). The Council's Budget included retained Business Rates income of £32.975m for 2016/17, which represents 49% of the net Business Rates income of £67.296m. Business Rates income has historically been very volatile making it difficult to forecast accurately.

5.2 The forecast outturn at the end of December 2016 is a deficit of £2.437m (£1.616m to the end of October) on Business Rates income. This is due to:

- The surplus on the fund at the end of 2015/16 being lower than estimated £2.437m;

- There are no in year budget variations to date in 2016/17 (previously £0.822m). This is a change from that previously reported as the 2016/17 surplus generated is being used to fund the appeals provision. A review of the appeals provision has been undertaken and it was deemed to be at an insufficient level. The amount of appeals made and the timing and cost of appeals settled during the year is highly volatile and a further review will be undertaken at the year end.

5.3 Due to Collection Fund regulations, the Business Rates deficit will not be transferred to the General Fund in 2016/17 but will be carried forward to be recovered in future years.

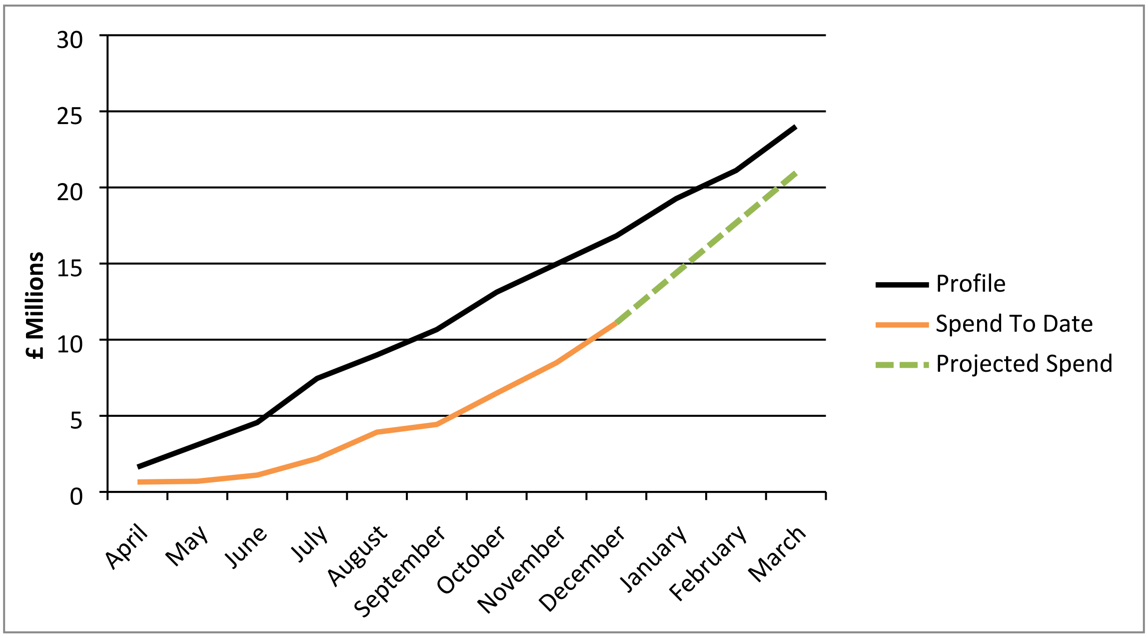
**6. <u>Capital Programme 2016/17</u>**

6.1 The full year budget for the Capital Programme in 2016/17 is £24.011m. This represents £9.898m of schemes that have been approved in the current year and £14.113m in relation to schemes approved in previous years.

6.2 As at the end of December, expenditure of £11.100m has been incurred against this budget. This represents 46.2% of the full year Capital Programme.

This level of expenditure represents an increase from the previously reported position (October) of £4.618m.

6.3 Project managers are currently reporting that expenditure of £20.959m will be incurred by the end of the financial year. Based upon current expenditure levels, this would mean that £9.8m will need to be incurred in the last 3 months of the financial year The following graph therefore shows the 2016/17 Capital Programme expenditure to date and the year-end forecast against the profiled budget.




6.4 The key variations in the year end forecast compared to the last reported period are shown below

| Scheme | 2016/17 Budget £'m | Previous Forecast £'m | Current Forecast £'m | Explanation |
|---|---|---|---|---|
| Thornton Crematorium upgrade | 1.100 | 1.100 | 1.026 | Slippage of £74k into 2017/18 due to additional flue work – will be contained within budget |
| Dunes all weather pitches | 0.203 | 0.203 | 0 | Scheme viability still being reviewed |
| CLAC High Ropes | 0.069 | 0.069 | 0.004 | Planning permission not granted |
| Melrose House Boiler | 0.046 | 0.046 | 0 | A request will be made to Re-phase this scheme into 2017/18 |
| Talbot Street Family Centre Boilers | 0.056 | 0.056 | 0 | A request will be made to Re-phase this scheme into 2017/18. |

| | | | | |
|---|---|---|---|---|
| I.T. Members ICT & Mobile Technology | 0.020 | 0.020 | 0 | Scheme will not be undertaken and re-phasing will be requested |
| E Government Priority Service Outcomes | 0.037 | 0.037 | 0 | Scheme will not be undertaken and re-phasing will be requested. |
| Adult Social Care Transformation – St Peters House | 0.016 | 0.016 | 0 | Work completed. Budget no longer required. |
| Adult Social Care Transformation - Shakespeare Centre | 0.060 | 0.060 | 0 | Work completed. Budget no longer required. |
| Maghull & District Community & Business Hub | 0.024 | 0.024 | 0 | Project ended, budget not required |
| Unallocated Town & Village Centres | 0.065 | 0.065 | 0 | Project ended, budget not required |
| Marian Square, Netherton CCTV | 0.042 | 0.042 | 0 | Awaiting possible purchase of land |
| Unalloc. Capital Priorities Fund | 0.053 | 0.053 | 0 | Re-phasing into 2017/18 will be requested for MIPIM. |
| HMRI | 1.078 | 1.078 | 0.624 | Re-phasing into 2017/18 will be requested to cover Mel-Inn compensation and acquisition of Klondyke Ph2-3 |

Following this month's review the level of forecast expenditure anticipated for the year has reduced to £20.959m. Whilst a request to re-phase a number of schemes will be made at year end funding of £0.165m has been identified as being able to be released and will be available for re-allocation

6.5 A detailed service by service breakdown of the expenditure is shown in the following table:

| | Full Year Budget | Total Expenditure to Date | % of Budget Spent | Budget Remaining |
|---|---|---|---|---|
| | £m | £m | % | £m |
| Health & Wellbeing | 0.364 | 0.075 | 20.6% | 0.289 |
| Communities | 2.392 | 0.763 | 31.9% | 1.629 |

| | | | | |
|---|---|---|---|---|
| Schools and Families | 4.402 | 2.541 | 57.7% | 1.861 |
| Regulation and Compliance | 0.168 | 0.112 | 66.7% | 0.056 |
| Regeneration and Housing | 2.398 | 1.261 | 52.6% | 1.137 |
| Adult Social Care | 2.323 | 1.208 | 52.0% | 1.115 |
| Locality Services - Provision | 2.539 | 1.076 | 42.4% | 1.463 |
| Locality Services - Commissioned | 8.391 | 3.850 | 45.9% | 4.541 |
| Corporate Support | 1.034 | 0.214 | 20.7% | 0.820 |
| Total Capital Programme | 24.011 | 11.100 | 46.2% | 12.911 |

6.6 With a capital programme in excess of £20m, it is currently forecast that a number of key projects will be operationally complete during 2016/17. These include:-

| Project | Impact | Total Project Value £'m |
|---|---|---|
| Transport – Carriageway Maintenance 2016/17 | Ongoing preservation / maintenance of the Highway network | 3.333 |
| Transport – Integrated Transport 2016/17 | Improvements to the transport network e.g. travel awareness, cycling and health, local safety schemes, traffic management schemes | 2.059 |
| Transport STEP Programme | A565 improvement, Seaforth Village improvements and A59 Ormskirk Road Access Improvements | 1.557 |
| Vehicle Replacement 2016/17 | Planned replacement of vehicles incorporating refuse vehicles and other departmental vehicles e.g. libraries, in order to maintain fleet resilience | 1.241 |
| Atkinson Museum Development | Development and improvement of facilities at the new museum | 0.708 |
| Dunes Leisure Centre Mezzanine Floor Gym | Invest to Save Scheme – Building and Infrastructure changes in order to generate additional income. | 0.504 |
| Formby Library | Capital investment to ensure that the remaining libraries are fit for purpose now and in the future | 0.370 |
| Transport - Bridges and Structures 2016/17 | Improvements / maintenance of the highways bridges and structures | 0.314 |
| Meadows Leisure Centre Extended Gym | Invest to Save Scheme – Building and Infrastructure changes in order to generate additional income. | 0.303 |
| Crosby Lakeside Adventure Centre | Invest to Save Scheme – Building and Infrastructure changes in order to generate additional income. | 0.291 |
| ICT Data Centre | Improvement of resilience of ICT data storage | 0.250 |
| Bootle Library | Capital investment to ensure that the remaining libraries are fit for purpose now and in the future | 0.100 |

6.6 In reviewing the current position on the Capital Programme it should be noted that as part of improved capital monitoring arrangements, a capital outturn report for 2016/17 will be presented to Cabinet (in conjunction with the revenue outturn) at the year end. In addition to providing details of in year expenditure and those schemes that have been completed, it will also provide details of those schemes that have underspent or are yet to start. This review will provide Members with some opportunity to ensure that those schemes that are to be carried forward into the next year remain a priority and align with the objectives of the Council. This will also improve the delivery and financial performance of the overall programme.

**7. Medium Term Financial Plan 2017/18-2019/20**

7.1 Following consideration of the budget package by Cabinet on 12 January 2017, this will now be reviewed by Overview and Scrutiny Committee on Tuesday 14th February 2017. A verbal update on the issues arising from that meeting will be presented as part of this agenda item. Any proposed updates from this meeting, the ongoing consultation processes or the financial assumptions will then be reflected in the final Council Budget report that will be considered on 2 March 2017.

This page is intentionally left blank

**ANNEX A**

## 2013-17 LISTED BUDGET SAVINGS PERFORMANCE AT DECEMBER 2016

| | |
|---|---|
| **Savings achieved to date** | 23,381,100 |
| **Progress is Satisfactory** | 5,343,150 |
| **Risk of savings not being fully achieved** | 403,000 |
| **Known shortfalls or significant risk that savings will not be achieved** | 6,789,200 |
| **Total of Savings** | **35,916,450** |

| | SAVING REQUIREMENT | Red | Amber | Green | Blue | Comment |
|---|---|---|---|---|---|---|
| Review of Commissioning - reducing funding support to community groups - Commissioning & Neighbourhood Coordination | **261,000** | | | | **261,000** | This saving will be achieved in 2016/17. |
| Libraries - Review of operation and management of libraries including book fund and opening times | **70,000** | | | | **70,000** | This saving will be achieved in 2016/17. |
| Parks Maintenance - Botanic Gardens Shop Closure | **30,000** | | | | **30,000** | This saving will be achieved in 2016/17. |
| Parks Maintenance - Increase allotment fees by an average of £[illegible]0 per full size plot in 2016/17 and again in 2017/18. | **20,000** | | | | **20,000** | This saving will be achieved in 2016/17. |
| Further Changes in Style and Standards of Parks Management | **27,000** | | | | **27,000** | This saving will be achieved in 2016/17. |
| Arts - Review management and opening times at the Atkinson | **120,000** | | | **120,000** | | This saving will be achieved in 2016/17. |
| Street Scene - Building Cleaning - change frequency of office cleaning | **19,000** | | | | **19,000** | There has been a reduction in the cost of cleaning Council and internal facilities during 2016/17 so the required saving is being met. |
| Public Conveniences increase charges | **40,000** | **40,000** | | | | This saving will not be achieved in 2016/17. This is due to the one off costs of fitting coin mechanised doors at facilities that were previously provided free of charge and higher than expected costs for maintenance and vandalism issues. Although charges have been increased / introduced, the financial benefit to the Council has been less than expected. Negotiations are currently underway with an external operator to provide a fully managed service at a cost that can be contained within the reduced budget. Therefore this saving is expected to be achieved from 2017/18 onwards. |
| Public conveniences reviewed for efficiency savings | **20,000** | **20,000** | | | | This saving will not be achieved in 2016/17. This is due to the one off costs of fitting coin mechanised doors at facilities that were previously provided free of charge and higher than expected costs for maintenance and vandalism issues. Although charges have been increased / introduced, the financial benefit to the Council has been less than expected. Negotiations are currently underway with an external operator to provide a fully managed service at a cost that can be contained within the reduced budget. Therefore this saving is expected to be achieved from 2017/18 onwards. |
| Careline Service/Security Force (income target) | **75,000** | | **75,000** | | | This saving is not being achieved as it is reliant on income derived from other parts of the Council (which have been subject to cuts) and the cessation of a healthcare project which was also expected to generate income for the service. At this stage no alternative income sources have been identified and it is therefore unlikely that this additional income requirement will be met in 2016/17. |
| Street Scene - Building Cleaning - change frequency of office cleaning | **50,000** | | | | **50,000** | There has been a reduction in the cost of cleaning Council and internal facilities during 2016/17 so the required saving will be met. |

| | SAVING REQUIREMENT | Red | Amber | Green | Blue | Comment |
|---|---|---|---|---|---|---|
| Cleansing Service - Reorganisation of workload and work patterns | **25,000** | | | | **25,000** | The budgetary provision for Cleansing Services has been adjusted to take account of the restructure which has now been implemented. As such, the required savings target will be achieved in 2016/17. However, it should be noted that the income target for recharges to internal facilities and services needs to be reviewed in the light of a reduction in cleaning budgets available across the Council. |
| Street Cleansing - Bulky Items Collection Service - Restructure Crews and introduce charge for bulky items | **6,000** | | | | **6,000** | The budgetary provision for Bulky Items has been adjusted to take account of a restructure and increased charges and as such, the required saving target will be achieved in 2016/17. |
| Green Waste | **430,000** | **430,000** | | | | Saving not likely to be achieved following the reorganisation of the recycling service. |
| Public Conveniences - Closure of all public conveniences | **74,000** | **24,000** | | **50,000** | | The original saving was predicated on the entire budget for the service being removed. There will still be residual costs to be incurred in closing the facilities in terms of NNDR, insurance, utilities, etc. for which no budget remains. Consequently, it will not be possible to meet the saving target in full during 2016/17 or in future years. |
| Bulky Items - Increasing collection charge from £7.50 to £10 per collection | **48,000** | | | | **48,000** | The budgetary provision for Bulky Items has been adjusted to take account of a restructure and increased charges and as such, the required saving target will be achieved in 2016/17. |
| Sefton Care Line and Sefton Securities - Increased income as result of increased service activity | **200,000** | **200,000** | | | | This saving target was predicated on increasing income by insourcing a wider range of previously externalised maintenance, testing and installation services across Council facilities and services. This did not happen as expected or proposed and as such it will not be possible to generate this additional income on top of the increased income target set for the current financial year. As such, this saving target will not be met during 2016/17. However additional business e.g. through the promotion of the Arc Angel product, is expected to generate significant income in the future which will not only enable this saving to be achieved but will also contribute towards future years' savings. Savings options in this area for 2017/18 and beyond will need to acknowledge the need to make this saving first |
| Catering - To increase the charge for each meal by 10p in September 2015 (start of the school term) and by a further 10p from September 2016 | **250,000** | | | | **250,000** | This saving requirement is based upon increasing the cost of a school meal annually over a two year period. The first increase generated the required additional income. Therefore, it is expected that the second increase will also provide the required increase in income. As such, the required saving target will be met in 2016/17. |
| New Options - Increase Cremation and Burial Fees by 5% above inflation | **150,000** | **150,000** | | | | A new crematorium has opened in West Lancashire within five miles of the existing facility in Southport. This has had an effect on the income generated at the facility. The crematorium at Thornton is also operating at reduced capacity (2 days a week) for some months this year due to a replacement programme for the old cremators which have failed emissions tests. As such the increased income levels will not be achieved in 2016/17. In future years, although full capacity will return at Thornton, the impact of the private crematorium will continue and the loss of income arising from this competition will prevent the income target of £150,000 from being met. |
| Improved procurement of Council wide communications activity | **61,050** | | | | **61,050** | This saving will be achieved in 2016/17. Following a review and realignment of budgets a recently deleted vacant post is being used to achieve the saving. |
| Corporate Communications Team - Deletion of vacant posts and Team restructure | **100,000** | **0** | | **0** | **100,000** | This saving was in total £204k (£100k phased 2016/17) and was originally to be met from a reduction in staffing. However the saving was then anticipated to be achieved by both staffing and income i.e. staffing £104k in 2015/16 (achieved) and income £100k in 2016/17 which has previously been reported as not achievable. Having reviewed the Communications budget and the wider Strategic Support budgets this saving will now be achieved. |
| Transformation - Reduction of Transformation resource | **75,000** | | | | **75,000** | This saving will be achieved in 2016/17 due to a restructure of teams. |
| Environmental Health - Reduction in front line environmental health regulatory services. Reduction in pest control services but retain full rat control service | **170,000** | | | **170,000** | | On target to be achieved. |
| Parking - Review of service and charging regimes | **467,000** | **100,000** | | **367,000** | | There will be a shortfall in income achieved due to the proposal to cease the refund of car park charges at leisure centres. The remaining 367k should be achievable subject to market conditions. |

| | SAVING REQUIREMENT | Red | Amber | Green | Blue | Comment |
|---|---|---|---|---|---|---|
| Street Lighting Energy - Invest to save in lighting columns and bulbs to allow reduced hours of lighting. | **530,000** | **530,000** | | | | It was anticipated last month that £100k would be achievable from energy savings / reduced tariffs which would have restricted the unachieved element of this saving to £430K. Latest information suggests that there will be no contributory saving in tariffs and the entire saving will not be achieved in the current year. Furthermore, the indicative tariff for 2017/18 will increase by £112k (based on current consumption levels) which will put further pressure on the achievement of the saving in subsequent years. Whilst every effort will be made to cover the saving through increases in income, this cannot be guaranteed. Excess income has been used in previous years to cover the regular overspend on winter service. There is a spend to save initiative for Cabinet to consider shortly. The outcome of the Cabinet decision will inform how the Council considers this saving option. |
| Further Changes in Style and Standards of Parks Management | **64,000** | | | **64,000** | | On target to be achieved. |
| Parks Maintenance - Reduction in GM Contracts | **30,000** | | | **30,000** | | On target to be achieved. |
| Coast - Reduction to visitor and site management activities. Extension to the length of the life guard contract on reduced terms. Car-parking income charges | **75,000** | | | **75,000** | | On target to be achieved. |
| Highway management, development, design and safety - Changes to charges Service reorganisations | **130,000** | | | **130,000** | | On target to be achieved. |
| Budget re-alignment of salaries to be funded from grants, contracts and reserves | **116,000** | **116,000** | | | | It is forecast that this saving will not be delivered in year as the majority of budget relates to Head of Service and grants that are used to fund remaining staff within the service who are not core funded.<br>This saving will not be achieved in the long term and the Medium Term Financial Plan has been adjusted to reflect this. |
| 14-19 Services - Changes to commissioning arrangements for Information, Advice & Guidance | **40,000** | | | | **40,000** | Achieved. |
| Management fee reduction - Formby Pool Contract | **50,000** | | | | **50,000** | Following re-negotiation of the contract this saving will be achieved |
| School Health - Re-specify/recommission the healthy Child programme for the whole 0-19 age range | **260,000** | | | | **260,000** | Saving achieved in 2016/17 |
| Sports Leisure- Active Sports - Increase in income due to increased charges and new programmes | **30,500** | | | **30,500** | | This £30.5k saving is the residual amount of a total saving target of £84k of which £53.5k was achieved in 2015/16. It appears that there has been an element of duplication around this particular saving with the original proposal only anticipating £30k additional income. While there may be some further additional income achieved in this particular area in 2016/17 it is unlikely that the full remaining £30.5k will be achieved in this specific income budget. However, It is anticipated that this will be achieved from other income areas. The situation will continue to be monitored throughout the year. |
| Public Health-Internal restructure to reflect the need to strengthen the influencing role of the team, and reduced need for commissioning capacity | **100,000** | | | | **100,000** | Saving achieved in 2016/17 |
| Integrated Wellness - Integration of Lifestyle services | **1,549,000** | | | | **1,549,000** | Saving achieved in 2016/17 |
| Substance Misuse - Reduction in Substance Misuse spend | **440,000** | | | | **440,000** | Saving achieved in 2016/17 |

| | SAVING REQUIREMENT | Red | Amber | Green | Blue | Comment |
|---|---|---|---|---|---|---|
| DCATCH - The scheme has already closed to new pupils, saving reflects cohorts of pupils completing the programme | **15,000** | | | | **15,000** | Saving will be achieved in 2016/17 |
| Children With Disability Service - Continue with the development of, and implement, new eligibility criteria | **315,000** | | **116,000** | **199,000** | | The achievement of this savings target has been challenging. A post originally identified to contribute towards this saving has been taken as part of the Senior Management Review. Pressure on Direct Payments in the sum of £0.181m is currently being offset by Care Packages of (£0.039m) and a temporary in year saving on employee costs on Aiming High Family Support Team of (£0.026m). The Aiming High Family Support Team has been merged with CWD Team. This will continue to be monitored closely. |
| Aiming High - Continue with the development of, and implement, new eligibility criteria. Review and potential cessation of funding for some activities | **400,000** | | | | **400,000** | This saving will be achieved in 2016/17. |
| Attendance Welfare Service - Improved administration of legal procedures. Reduced eligibility for service interventions. Increase income | **142,000** | | | **142,000** | | This saving should be achieved in 2016/17. |
| Locality Assessment - Redesign of Common Assessment Framework team Implement a stronger Lead | **60,000** | | | **60,000** | | This saving should be achieved in 2016/17. |
| Commissioning - Reduction of the Commissioning Service staffing | **144,000** | | | | **144,000** | This saving will be achieved in 2016/17 due to a restructure of teams. |
| Business Intelligence & Performance - Re-structure | **360,000** | | | | **360,000** | This saving will be achieved in 2016/17 due to a restructure of teams. |
| Housing Standards - Reduction in housing enforcement services including cessation of corporate illegal traveller sites co-ordination | **20,000** | | | **20,000** | | On target to be achieved. |
| Planning - Increase in income across parts of the service Development Management, Building Control, and Technical Support [land charges] in light of economic forecast | **130,000** | **33,350** | | **96,650** | | This savings target relates to Planning / Building Control income and whilst there is likely to be an overachievement of Planning Application income of £116K and Fees for Information and other Planning Fees of £40k, there are currently estimated shortfalls on Building Control (£171K), and the Section 106 admin fee (£18K). The net effect of all of these is a shortfall of income against budget of £33K. |
| Home Improvements DFG - Re-profiling the allocation of costs and increasing the level of recharges | **10,000** | | | **10,000** | | On target to be achieved. |
| Treasury Management | **8,000,000** | | | | **8,000,000** | The Council has changed its policy relating to the provision for debt repayment. This has generated significant savings until 2019/20 (2016/17 saving includes the saving achieved in 2015/16 that was reserved to be utilised in 2016/17 and future years). |
| General inflation provision - Remove general inflation provision set in MTFP at 2%. This will require all services to deliver general efficiency in the delivery of all services | **2,180,000** | | | | **2,180,000** | Budget provision reduced, saving therefore achieved. |
| Reduced accommodation costs - Lease on Houghton Street | **76,000** | | **76,000** | | | This saving is unlikely to be able to be achieved in this or future financial years due to it being a duplication of the 2015/16 saving Ref 67 (£60k). However, a balanced service outturn will be delivered and this will be delivered in future years. |
| Building Maintenance - Recharge Salaries to Capital Schemes | **136,000** | | **136,000** | | | It is currently uncertain as to whether this saving will be delivered in 2016/17. However, a balanced service outturn will be delivered and this will be delivered in future years. |

| | SAVING REQUIREMENT | Red | Amber | Green | Blue | Comment |
|---|---|---|---|---|---|---|
| EEMS (Energy and Environment) - Reduction in Carbon reduction service and community energy service | **42,000** | | | | **42,000** | Saving achieved in 2016/17 |
| Finance & ICT Services - Restructuring Finance and ICT services after implementation of new financial system in 2015 | **500,000** | | | **50,000** | **450,000** | It has previously been identified that there is an issue with a saving of £50,000 being achieved by arvato in this financial year. Discussions have now taken place with arvato in order to identify other savings which can be made in order to address this shortfall, and one-off mitigating savings have been potentially identifed. The remainder of the saving of £450,000 has been achieved in 2016/17. |
| Finance & ICT Services - Reduce ICT, printing and telephone costs in line with general Council reductions | **190,000** | | | | **190,000** | Saving achieved in 2016/17 |
| Learning & Development - Reduction in activity associated with learning and development | **108,000** | | | | **108,000** | Saving achieved in 2016/17 |
| New Options - Remove the discretionary support to Parish Councils for Council Tax Reduction Scheme | **95,000** | | | | **95,000** | Saving achieved in 2016/17 |
| Contracted transactional services | **1,000,000** | | | **382,000** | **618,000** | Saving will be achieved in full in 2016/17, however £0.382m relates to one-off savings in this financial year. Discussions are continuing with arvato to identify ongoing sustainable savings. |
| Area Finance / Finance Visiting Officers - Review | **28,700** | | | | **28,700** | This is the full year effect of the saving resulting from the review of this service and the saving has been achieved in full. |
| Day Care - Day Care Review | **873,050** | **670,000** | | | **203,050** | There is a saving requirement in- year of £750k and £123.05k that relates to the previous financial year. The element that relates to the previous year has been achieved in full as a result of the full year effect of contract negotiations already agreed with New Directions. Of the £750k in year saving, £80k has been identified specifically to date. The refurbished Mornington Road and Dunningsbridge Resource Centres (for those with the most complex needs) are due to open in 2017. Further contract negotiations are being undertaken with New Directions to reflect the outcome of the Day Care review. There may be some further savings made in 2016/17 following negotiations and depending on the timing of the completion of refurbishments. A working group has been established to manage the detail of the required changes to the contract, to ensure plans are in place to avoid the risk of the saving not being achieved, in full, in 2017/18 |
| Adult Social Care - Social care services will be required to contain net demographic growth within existing budgets for the duration of the plan. The figure has been adjusted to reflect Cabinet's previous decision relating to the underachievement of the services 2014/15 budget savings requirement. This assumption will need to be kept under close scrutiny to ensure deliverability | **3,000,000** | | | | **3,000,000** | This saving has been achieved. However, note the issue regarding Better Care Fund in the main body of the report. |

| | SAVING REQUIREMENT | Red | Amber | Green | Blue | Comment |
|---|---|---|---|---|---|---|
| Domiciliary Care - Further explore the use of adaptations, equipment and Assistive Technology Reduce the number of hours, number of calls, or number of carers utilised, where this is appropriate Work in partnership with the voluntary/community sector to facilitate the development and utilisation of low-level alternative/preventative community services Explore more outcome-focused commissioning | **1,560,000** | | | **1,560,000** | | The saving was intended to be delivered in the first instance through a more effective Reablement Service model, reducing the need for ongoing domiciliary care, together with improved use of adaptations and assistive technology. The new Reablement Service is proving effective with the most significant impact being to reduce the requirement for residential care. The intention is to extend Home Care Re-ablement to community referrals. In addition re-assessments continue with a particular focus on those cases where providers have identified that they feel provision could be reduced. Where domiciliary care packages are being re-assessed the option to increase established 30 minute care visits by 15 minute blocks rather than the usual 30 minute blocks is available. Early discussions have been held with the Cabinet Member ASC, in respect of the redesign/ recommissioning of the Domiciliary Care and Reablement Services, with a view to exploring more outcome-focused commissioning |
| Supported Living - Alternative and more efficient ways of meeting assessed care needs | **1,800,000** | **1,099,000** | | **701,000** | | Officers continue to work on the commissioning of a more efficient, effective and sustainable supported living and care model. £701k has been identified to date following reviews of Supported Living care packages and work continues in this area with resources having been extended to provide capacity for this work. Negotiation of new rates, following implementation of the National Living Wage and a legal judgement relating to "sleep-in" rates, resulted in some delays to the programme during the latter half of 2016 and ongoing uncertainty relating to possible government changes to housing benefit provision has resulted in a reduced appetite currently amongst housing providers to develop the larger occupancy properties required. Progress on the project, action plan, timeframe and resources is under ongoing review in order to support delivery of the saving and recognising the above difficulties, the Head of Adult Social Care has recently approved the temporary allocation of some additional social care and commissioning support resource to support the ongoing reassessments and completion of the re-specification and redesign of the service model. This work will enable re-commissioning of services during 2017/18. Service users' eligible care and support needs will continue to be met but possibly in larger occupancy dwellings. An increased number of people may have their needs met through Shared Lives or other placements that meet their needs. Any changes to a service user's tenancy will be via reassessment of need and will be agreed with the service user and housing/care providers. It is anticipated that service users' care packages may change through increased/additional use of assistive technology which will result in independence and self-sufficiency. The recommissioning will consider 'zoning' of care providers and the potential impact of an increased focus on personalisation. |
| Adult Assessments - An end to end review of assessment and review policies, procedures and processes within Adult Social Care. | **300,000** | | | | **300,000** | This saving has been achieved following the review of assessment processes, policies and procedures |
| Housing Related Support Further decommissioning and re-commissioning of funded services in accordance with the approved Commissioning Intentions and Priorities | **900,000** | **65,000** | | | **835,000** | £835k of this saving has been achieved. Commissioners are reviewing residual contracts and are in discussions with providers to identify how the remaining saving can be achieved. The saving will be achieved in full in 2017/18 |
| Children's administrative support - Service redesign | **20,000** | | | **20,000** | | On target to be achieved and will be caputured as part of the restructure of Children's Social Care administration. |
| New Options - Funding of highways, ICT and other developments from capital resources | **1,000,000** | **434,000** | | **566,000** | | The achievable figure is based on the actual capitalisation in 2015/16. Work will continue to identify all work that can be capitalised in 2016/17, although the full saving may not be delivered. |
| New Options - Funding revenue consequences of planning projects from Section 106 | **500,000** | | | **500,000** | | This saving will be achieved in 2016/17. |
| Financial Assessments | **250,000** | **250,000** | | | | Actions ongoing to identify how this saving can be delivered. |
| Customer Access Point | **250,000** | **250,000** | | | | Actions ongoing to identify how this saving can be delivered. |

| | SAVING REQUIREMENT | Red | Amber | Green | Blue | Comment |
|---|---|---|---|---|---|---|
| Levies - Merseyside Waste and Recycling Authority and the Integrated Mersey Transport Authority have been requested to support the Council by finding 10% efficiency savings in setting their budgets for 2015/16 and 2016/17 | **2,509,150** | **859,550** | | | **1,649,600** | The Council actively engaged with the levying bodies to try to achieve a 10% reduction in the cost of levies to the Council. Unfortunately reductions in the Merseyside Recycling and Waste Authority Levy were not achievable in full. The partial non-achievement of this saving has been built into the 2017/18 to 2019/20 Medium Term Financial Plan. |
| Budget Planning Assumptions - Management Arrangements | **1,300,000** | **367,650** | | | **932,350** | £932k delivered on phase one with a further £368k to be delivered. |
| Voluntary Community Faith Review | **1,500,000** | **1,150,650** | | | **349,350** | £364k of the savings target has been achieved. The remainder of the £1.5m is not achievable. |
| **Total Savings Requirement 2013-2017** | | **6,789,200** | **403,000** | **5,343,150** | **23,381,100** | |



Agenda Item 4

7 of

This page is intentionally left blank

**Report to:** Cabinet **Date of Meeting:** 16 February 2017

Council 2 March 2017

**Subject:** Treasury Management Policy and Strategy 2017/2018

**Report of:** Head of Corporate Resources **Wards Affected:** All

**Is this a Key Decision?** No **Is it included in the Forward Plan?** No

**Exempt/Confidential** No

---

**Purpose/Summary**

To advise Cabinet of the proposed procedures and strategy to be adopted in undertaking the Treasury Management Function in 2017/2018.

**Recommendation(s)**

Cabinet to recommend to Council that: -

a) The Treasury Management Policy Document for 2017/2018 (Annex A) be agreed;

b) The Treasury Management Strategy Document for 2017/2018 (Annex B) be agreed; and

c) The basis to be used in the calculation of the Minimum Revenue Provision for Debt Repayment in 2016/2017 (Annex C) be agreed.

**How does the decision contribute to the Council's Corporate Objectives?**

| | Corporate Objective | Positive Impact | Neutral Impact | Negative Impact |
|---|---|---|---|---|
| 1 | Creating a Learning Community | | √ | |
| 2 | Jobs and Prosperity | | √ | |
| 3 | Environmental Sustainability | | √ | |
| 4 | Health and Well-Being | | √ | |
| 5 | Children and Young People | | √ | |
| 6 | Creating Safe Communities | | √ | |
| 7 | Creating Inclusive Communities | | √ | |
| 8 | Improving the Quality of Council Services and Strengthening Local Democracy | | √ | |

**Reasons for the Recommendation:**

To enable the Council to effectively manage its treasury activities.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

All issues are identified within the report

**(B) Capital Costs**

None.

**Implications:**

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

| | |
|---|---|
| **Legal** | Local Authorities are required to have regard to the Code of Practice on Treasury Management under the provisions of the Local Government Act 2003 |
| | |
| Equality<br>1. No Equality Implication<br>2. Equality Implications identified and mitigated<br>3. Equality Implication identified and risk remains | <br>√<br><br> |

**Impact on Service Delivery:**
None.

**What consultations have taken place on the proposals and when?**

The Head of Corporate Resources is the author of the report (FD4494/17)

The Head of Corporate Legal Services has been consulted and has no comments on the report (LD3777/17).

**Are there any other options available for consideration?**
None.

**Implementation Date for the Decision**
With effect from 1st April 2017.

**Contact Officer:** Stephan Van Arendsen
**Tel:** 0151 934 4081
**Email:** Stephan.VanArendsen@sefton.gov.uk

**Background Papers:**

None

**Background**

1.1 The Council has previously adopted CIPFA's revised 2001 Code of Practice on Treasury Management in the Public Services which recommends the production of annual Treasury Management Policy and Strategy Documents, and the revision to the Code in 2009 following the Icelandic bank collapse. The Council has also adopted the revisions contained within the 2011 Code.

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

a) The requirements of the 2003 Prudential Code for Capital Finance in Local Authorities; and,

b) An Investment Strategy produced in line with guidance from the then Office of the Deputy Prime Minister, concerning the investment of surplus funds. This sets out the manner in which the Council will manage its investments, giving priority to the security and liquidity of those investments.

**2. Treasury Management Policy and Strategy Documents**

2.1. The Code requires the Council to produce:

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

b) A Treasury Management Strategy Document – This sets out specific treasury activities which will be undertaken in compliance with the Policy in 2017/2018; and

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

The content of the policy statement and the treasury management practices will follow the recommendations contained in sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles. None have occurred in recent years.

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

2.3. In view of the complex nature of Treasury Management, regular treasury update reports will be presented to the Audit and Governance Committee.

**3. Financial Procedure Rules – Banking Arrangements**

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

**4. Minimum Revenue Provision (MRP) for Debt Repayment Policy Document**

4.1. 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).

4.2. 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 by the DCLG on determining the "prudent" level of MRP, to which authorities are required to have regard. The latest guidance was published in February 2012 (3rd Edition). The 2008 regulations and associated guidance allowed local authorities more flexibility in calculating their MRP annual charge.

4.3. Authorities are required to prepare an annual statement of their MRP policy for submission to their full council. The aim is to give elected Members the opportunity to scrutinise the proposed application of the MRP guidance.

4.4. Authorities are required to approve their MRP policy for 2016/17 before 31 March 2017.

4.5. The proposed MRP Policy for 2016/17 is set out in **Annex C**.

**ANNEX A**

# SEFTON COUNCIL

# TREASURY MANAGEMENT POLICY 2017/2018

**CORPORATE RESOURCES**

1. **Treasury Management Policy**

1.1. The Council defines Treasury Management as:

The management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

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 is regarded as being the prime criteria by which the effectiveness of the Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation.

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

1.4 Members should receive training in the Treasury Management function, in order to assist in the understanding of this relatively complex area. This will be addressed via the provision of regular reporting to Cabinet, Corporate Services Cabinet Member Meeting and the Audit and Governance Committee, and the provision of specific training on Treasury Management from the authority's Treasury Management Advisers.

2. **Policy on the use of external service providers**

2.1 The Council currently employs Sector as its treasury consultants. Sector was engaged for the first time with effect from 01/04/2014, following a tendering exercise for the contract. The Council recognises that responsibility for treasury management decisions rests with the Council at all times. It also recognises that there is value in such arrangements in order to acquire 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.

2.2 The current contract is due to expire on 31/03/2017. A tendering exercise is currently underway to appoint the Council's treasury consultants for a further three years.

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 2017/2018 is attached at **Annex B**.

4. **Delegated Powers**

4.1. The Head of Corporate Resources, 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 Head of Corporate Resources, 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 Head of Corporate Resources (or in his/her absence the Deputy Section 151 Officer) who shall be required to act in accordance with the Council's Treasury Policy, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

5. **Reporting Requirements/Responsibilities**

5.1. Council

Council will approve, prior to each financial year, the Treasury Management Policy and Strategy Documents. Also, an annual outturn report on Treasury Management activity will be presented to Council following consideration by the Audit & Governance Committee.

5.2. Cabinet

Cabinet will:

a) Consider, prior to each financial year, Treasury Management Policy and Strategy Documents and refer them to Council for approval;
b) Monitor these documents and approve any in-year amendments necessary to facilitate continued effective Treasury Management activity; and
c) Receive an annual outturn report on Treasury Management activity prior to the 30th June following each financial year.

5.3 Audit and Governance Committee

Audit and Governance Committee will:

a) Implement and monitor performance on at least a quarterly basis that is necessary to facilitate continued effective Treasury Management activity;

b) Receive an annual outturn report on Treasury Management activity prior to the 30th June following each financial year; and
c) Will be responsible for ensuring effective scrutiny of treasury management and policies.

5.4 Head of Corporate Resources

The Head of Corporate Resources will:

a) Draft and submit to Cabinet and Council prior to each financial year, 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 for approval;
c) Draft and submit an annual outturn report on Treasury Management activity to Cabinet and Council by the 30th June following each financial year-end (and subsequently to Council);
d) Draft and submit an annual outturn report (and quarterly performance reports) on Treasury Management activity to the Audit & Governance Committee by the 30th June following each financial year-end;
e) Maintain suitable Treasury Management Practices (TMP), setting out the manner in which the Council will seek to achieve its objectives. The TMP's will also prescribe how the treasury activities will be managed and controlled;
f) Be responsible for the execution and administration of treasury management decisions; and
g) Act in accordance with the Council's policy statement and treasury management practices, and also in accordance with CIPFA's Standard of Professional Practice on Treasury Management.

**6. Borrowing and investments**

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

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

**ANNEX B1**

# SEFTON COUNCIL

# TREASURY MANAGEMENT

# STRATEGY

# 2017/2018

**CORPORATE RESOURCES**

**SEFTON COUNCIL**

**Treasury Management Strategy**

## 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; the 2011 revised Prudential Code for Capital Finance, and the revised Treasury Management in the Public Services code of Practice and Cross-Sectoral Guidance Notes (2011).

## 2. Treasury Management Strategy 2017/2018

2.1. The Strategy for 2017/2018 covers:

a) Treasury Limits in force which will limit the borrowing activity of the Council (2.2);
b) Prudential Indicators 2017/2018 to 2019/2020 (2.3);
c) Credit Risk (2.4);
d) Interest Rates (2.5);
e) Exchange Rates (2.6);
f) Capital Borrowing (2.7);
g) Debt Rescheduling opportunities (2.8);
h) Borrowing in advance of need (2.9);
i) The Use of Financial Instruments for the Management of Risks (2.10);
j) Investment Strategy (2.11);
k) Member and Officer Training (2.12).

2.2. Treasury Limits for 2017/2018

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

| | |
|---|---|
| The overall or Affordable Borrowing Limit (Authorised limit as per Prudential Indicators 2017/2018). | Maximum £198.5m |

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 2017/2018, the need to fund capital expenditure previously met from internal funding, and cash flow requirements.

| | |
|---|---|
| The amount of overall borrowing, which maybe outstanding by way of short-term borrowing. | Maximum £15m |

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.

| | |
|---|---|
| The proportion of external borrowing which is subject to variable rate interest. | Maximum 20% |

The limit on variable rate borrowing gives the Council flexibility to finance expenditure at favourable market rates, but ensures Council exposure to variable interest commitments is within prudent levels.

2.3. Prudential Indicators

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

2.3.1 Interest Rate Exposure Indicators

Fixed rate borrowing and investment has the benefit of reducing the uncertainty surrounding future interest rate changes. However, in looking to improve performance best practice recommends retaining a degree of flexibility through the use of variable rates on at least part of the Treasury Management Activity.

To ensure that the risk associated with improved performance which may be achieved by using variable loans and investments is minimised, it is necessary to establish indicators to control the position. The control is based on setting an upper limit for both fixed and variable interest rate exposures expressed as a percentage of the Council's net outstanding principal sum. The following indicators are to be used:

| **Upper Limit for Interest Rate Exposures** | **2017/18 %** | **2018/19 %** | **2019/20 %** |
|---|---|---|---|
| Upper limit for fixed interest rate exposure expressed as a percentage of net outstanding principal sum | 340 | 340 | 340 |

| | | | |
|---|---|---|---|
| Upper limit for variable interest rate exposure expressed as a percentage of net outstanding principal sum | -20 | -20 | -20 |

2.3.2 Non Specified Investment Indicator

The Investment Strategy (Para 2.11) allows non-specified investments (see paragraph 2.11.3 for definition) to be made using funds managed by the Council. The indicator is designed to control the level of such non-specified investments when compared to the overall investments of the Council.

| **Upper Limit on Non-Specified Investments** | **2017/18 %** | **2018/19 %** | **2019/20 %** |
|---|---|---|---|
| Upper limit on the value of non-specified investments as a percentage of total investments (including long term investments, and investments without credit ratings or rated below A-) | 40 | 40 | 40 |

2.3.3. Debt Maturity Indicators

These indicators are designed to be a control over an authority having large concentrations of fixed rate 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 is fixed rate that will mature in each period as a percentage of total projected borrowing that is fixed rate. 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 Sector, the Council's Treasury Management Advisors.

| **Maturity Structure of Fixed Rate Borrowing During 2017/2018** | **Upper Limit %** | **Lower Limit %** |
|---|---|---|
| Under 12 month | 35% | 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 above | 90% | 25% |

2.3.4 Principal sums invested for periods linger than 364 days

An upper limit on the value of non-specified investments over 1 year, but less than 5 years is set at 40% of Total Investments. This limit will be kept under review to take advantage of any opportunities in the current money market. Members will be advised of any change.

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 a variety of recognised money market organisations, as part of the process to determine the list of banks where the level of risk is acceptable, with security, then liquidity, being the key aims. As part of this process advice from Sector will be considered, both in terms of maximum duration and level of investment.

The Council also considers 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 (minimum A- or equivalent) and its sovereign (minimum AA- for non-UK sovereigns);
- 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;
- Subjective overlay.
- Background research in the financial press
- Discussion with our treasury consultants
- Internal discussion with the Head of Corporate Resources

The Council will only invest in institutions that have a Risk Matrix scoring of long term A- (or equivalent).

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

2.5. Interest Rates

2.5.1 Sector provide regular forecasts of interest rates to assist decisions in respect of:

a) Capital Borrowings (2.7);
b) Debt Rescheduling opportunities (2.8);
c) Temporary borrowing for cash flow; and
d) Investments strategy (2.11).

2.5.2 **Annex B2** gives details of Sector's central view regarding interest rate forecasts. Sector's forecast is for official interest rates to remain at 0.25% until the end of March 2019 rising to 0.50% by the end of June 2019, then rising to 0.75% by the end of December 2019 and continuing at this rate to the end of financial year.

2.5.3 The advice from Sector 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.

2.6 Exchange Rate Risk Management

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.

2.4. Capital Borrowing

2.7.1 The Authority currently holds £126.828m of loans, a decrease of £13.163m on the previous year as set out below:

| **Debt Portfolio** | 31/03/2016 |
|---|---|
| Average Interest Rate | 4.52% |
| Debt Outstanding – Fixed Rate | £m |
| PWLB | 110.177 |
| Other Borrowing | 12.275 |
| Other Long Term Liabilities | 4.376 |
| Total Debt | 126.828 |

The category of other borrowing (£12.275m) represents finance lease liabilities.

Other long term liabilities (£4.376m) represent transferred debt from the Merseyside Residuary Body.

2.7.2 The Council will raise its required finance, following advice from treasury management advisors, from the Public Works Loan Board (PWLB), or other local authorities, and any other body that is considered suitable, such as the Municipal Bond Agency.

The Council's forecast borrowing requirement for 2017/2018 is as follows:

| **Borrowing Requirement** | **Estimate £m** |
|---|---|
| New Borrowing | 60.717 |
| Replacement Borrowing | 0 |
| **Total Borrowing** | **60.717** |

The new borrowing represents the unsupported borrowing as required by the Capital Programme in 2017/18 (£5.7m), additional borrowing required as a result of a payment in advance to Merseyside Pension Fund in 2017/18 (£15m) and headroom of £40m to allow for new borrowing requirements. As noted in 2.7.4 (below) the Council is internally borrowed, and may take additional borrowing if required in order to reverse this position.

2.7.3 The Sector forecast for interest rates is set out at **Annex B2**. This would suggest that the following strategy is followed:

- The cheapest borrowing will be internal borrowing, which involves reducing cash balances and foregoing interest earned at historically low rates. Consideration will always be given to long term borrowing rates and the possibility of rates rising, which could mean borrowing at future higher rates which could erode the advantages of internal borrowing
- Temporary borrowing from money markets or other local authorities.

2.7.4 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). PWLB borrowing as at 31$^{st}$ January 2017, plus lease liabilities and other long term liabilities, is £116.828m, as against a CFR of £200.107m for 2017/18. This position is classed as being internally borrowed which does have the advantage of reducing exposure to interest rate and credit risk. To be internally borrowed is a conscious decision to use cash balances to fund capital expenditure, rather than borrow from the PWLB. This position can be reversed at any time by borrowing from the PWLB, or any other appropriate organisation such as the Municipal Bond Agency.

2.7.5 2017/18 is expected to experience a continuation of a low base rate. Hence, internal borrowing is a sensible option where interest rates on deposits are much lower than the current PWLB borrowing rates, but this will be reviewed should interest rates change significantly.

2.7.6 However, as noted in 2.7.3, savings have to be weighed against the potential for incurring long term extra costs by delaying unavoidable new borrowing until later years when PWLB rates are forecast to be higher. This issue will be left under review and discussions with treasury management advisors will be ongoing to ascertain the optimum time for undertaking future borrowing.

2.7.7 The UK Municipal Bond Agency issues bonds to finance local authority projects at a lower rate than the PWLB. The Authority may wish to make use of this alternative source of borrowing if and when appropriate.

2.7.8 Against this background, caution will be adopted in undertaking borrowing in 2017/2018. The Head of Corporate Resources will monitor the interest rate market and following advice from Sector, adopt a pragmatic approach to changing circumstances during the year.

2.7.9 External v Internal Borrowing
The Council currently has a difference between gross debt and net debt (gross debt net of cash balances) of £85m. The general aim of the strategy would be to reduce the difference between the two in order to reduce the credit risk of holding investments.

2.7.10 As noted in 2.7.4 above the Council is internally borrowed. If this continues this will reduce the difference between gross and net debt. Early repayment of debt is, however, not a realistic option since the introduction by the PWLB of significantly lower rates on 1 November 2007 compounded by a considerable further widening of the difference between new borrowing and repayment which has meant that large premiums would be incurred.

## 2.8. Debt Rescheduling Opportunities

2.8.1 As noted in 2.7.10 above, restructuring with the PWLB is now much less attractive than before due to the potentially large premiums that would be incurred.

2.8.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring. However, the situation will be monitored and the Council will consider the option of debt restructuring during 2017/2018, should the financial circumstances change.

## 2.9 Borrowing in advance of need

2.9.2 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.

2.9.3 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.

2.9.4 The total amount borrowed will not exceed the authorised borrowing limit of £168.500m. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

2.10 The Use of Financial Instruments for the Management of Risks

2.10.1 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. LOBO loans 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.

2.10.2 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.

2.10.3 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.

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

2.11. Investment Strategy

2.11.1 The Council manages the investment of its surplus funds internally, and operates in accordance with the Guidance on Local Government Investments issued by CLG, and the 2011 CIPFA Treasury Management in Public Services and Cross Sectoral Guidance Notes. Surplus funds are invested on a daily basis ensuring security, followed by liquidity.

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

- The security of capital
- The liquidity of capital

The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.11.3 Under the system of guidance investments are classified as Specified or Non Specified.

Specified Investments are those which satisfy the following conditions:
a) The investment and all related transactions are in sterling;
b) The investment is short-term i.e. less than 12 months;
c) The investment does not involve the acquisition of share capital;
Either:
i) The investment is made with the UK Government or local authority; OR
ii) The investment is made with a body or scheme, which has been awarded a high credit rating by a credit rating agency (A- or above).

Non Specified Investments are those that do not meet the above definition.

2.11.4 The Council's investment portfolio as at 24th January 2017 is set out below:

| Investments Portfolio | £m |
|---|---|
| Specified Investments | 54.920 |
| Non-Specified Investments | 0.000 |
| Total | 54.920 |

2.11.5 The Council banks with National Westminster, which is part of the Royal Bank of Scotland Group. It is currently a part government-owned institution. At the present time, it does not meet the minimum credit criteria of A- (or equivalent) long term. The Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements when no other options are available.

2.11.6 The Council Strategy will be:

a) To make Specified Investments in line with the above conditions;
b) To make Non Specified Investments which satisfy all of the above with the exception of 2.11.3 b) which is extended to a period of less than 2 years for fixed term deposits, and is open ended for negotiable instruments such as CDs;

It is suggested that the following investment vehicles should be made available to the authority:

| Investment | Reason | Risk |
|---|---|---|
| Term deposits made with banks with a high credit quality (see Annex B3). Deposits also acceptable on an overnight call basis. Can also deposit with Local Authorities. | Certainty of rate of return and repayment of capital | Liquid, with potential for deterioration in credit risk. Most Local Authorities are not credit rated. |
| Certificates of Deposit with Banks and Building Societies | Certainty of rate and liquid | If not held until maturity, can be sold for a capital loss on the secondary market |

| | | |
|---|---|---|
| Supra-national bonds | Greater levels of security of investment. A fairly liquid investment, though not as liquid as Gilts | High credit rating as placed with EIB and World Bank (AAA rated). Bond price may vary if sold early |
| Investments with Registered Providers | Certainty of rate of return and repayment of capital | Most Registered Providers are not credit rated. |
| Investments with organisations that do not meet the Council's specified investment criteria (subject to an external credit review and specific advice from TM advisor). Such investments include property funds. | Greater diversification and allows a small portion of the portfolio to be invested at higher rates of return | Investments may not be with credit rated organisations |
| AAA rated Money Market Fund (MMF) | Same day liquidity and high credit worthiness due to considerable diversification | High credit rating via the International Money Market Fund Association or IMMFA (AAA rated) |
| Other Money Market and Collective Investment Schemes | Strong portfolio diversification | Variable Net Asset Value VNAV funds – potential for receiving less than paid in. Plus long lead time for return of investment. |
| Corporate Bonds | Can be sold on the secondary market | Can be sold for a capital loss |
| Gilts | Liquid and very secure. Interest paid every six months | High credit rating as Government backed (AAA rated). Bond price may vary if sold early |
| Treasury Bills | Liquid and very secure. Duration of < 1year | No interest paid – they are zero-coupon rated, but are typically bought at a discount. |
| Debt Management Agency Account Deposit Facility (DMADF) | Secure investment | High credit rating as Government backed (AAA rated). Interest earned low. Investment cannot be repaid early |

The maximum that can be invested in any of the above vehicles is £25m, except for term deposits, MMF's and UK Government investments for which no limit is set. The maximum maturity period in any is 2 years for non-tradable deposits, and 5 years for deposits that are tradable on the secondary market. However, advice from Sector will be taken into account in determining whether shorter maximum investment period is more appropriate during the year.

It is NOT proposed that the Council will be making any Non Specified Investments in 2017/2018 that do not comply with the above, however, should the situation change, the Head of Corporate Resources will report to Cabinet requesting appropriate approval to amend the Strategy before any such investments are made.

2.11.7 The Bank of England Base Rate has remained significantly low at 0.25%. Sector's projection of interest rates is for a rise to 0.50% by the end of June 2019 increasing to 0.75% by December 2019 (**Annex B2**). Given the volatility of the market, the forecasts can only be used as a general guide to the future position. Consequently for 2017/18, the Authority has taken a prudent view and budgeted for an investment return based upon Sector's base rate projection during 2017/18.

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

ii) Sterling International Brokers Limited;
iii) Tradition UK Limited;
iv) Tullet Prebon Limited.

2.11.9 As noted in previous year's reports, Cabinet agreed that the limit of investments that can be made to any approved UK or international banking institution was raised from £15m to £25m. This reflected the fact that our counterparty list became drastically reduced following the downgrading of many banks by the credit rating agencies following the credit crunch. However, now that stability has entered the banking sector, on an operational basis we are using an institutional or group limit of 10% of total investments in order to increase security of capital by spreading risk.

It should be noted that the previous policy of increasing the investment in groups to 1.5 times that of an individual institution has been removed. An operational maximum limit of £22.5m previously applied to banking groups has also now been removed.

2.11.10 The current list of countries at **Annex B4** has been produced for information; this takes account of the most up-to-date credit ratings available in respect of the countries named, and utilising Sector's creditworthiness advice. It should be noted that a maximum of £25m can be invested with any one country outside of the UK. The investment counterparties within each country will be monitored daily with the assistance of treasury management advisors to ensure they continue to meet the requirements for high credit quality as outlined at **Annex B3**. 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 Cabinet approval) or remove a country from the approval list.

2.11.11 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.

2.11.12 Performance monitoring

a) Compliance with investment strategy (i.e. level of risk is not exceeded).

b) The performance of the Council's investment strategy will be assessed by monitoring the average interest rate earned against the average 7 day LIBID on a monthly basis.

This will be reported to the Audit and Governance Committee on a quarterly basis, with outturn reports also presented to Cabinet and Council.

2.12 Member and Officer training

2.12.1 CIPFA's Code of Practice requires the Head of Corporate Resources 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.

2.12.2 In order to address this, the Service Manager – Treasury & Sector has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification CertITM-PF, which is aimed at giving a solid grounding in treasury management and which is tailored to the public sector. Training will be provided for Members of the Audit & Governance Committee on 22nd March 2017 and it is intended for such training to occur at least annually.

**ANNEX B2**

## INTEREST RATE FORECAST

### Sector's Interest Rate Forecast as at 23rd January 2017

| Capita Asset Services Interest Rate View | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Rate View | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.50% | 0.75% | 0.75% | - |
| 3 Month LIBID | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% | 0.40% | 0.50% | 0.60% | 0.70% | 0.80% | 0.90% | 0.90% |
| 6 Month LIBID | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% | 0.50% | 0.60% | 0.70% | 0.80% | 0.90% | 1.00% | 1.00% |
| 12 Month LIBID | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.80% | 0.80% | 0.90% | 1.00% | 1.10% | 1.20% | 1.30% | 1.40% | 1.40% |
| 5yr PWLB Rate | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 1.90% | 2.00% | 2.00% | - |
| 10yr PWLB Rate | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | - |
| 25yr PWLB Rate | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | - |
| 50yr PWLB Rate | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | - |
| **Bank Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.50% | 0.75% | 0.75% | - |
| Capital Economics | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% |
| **5yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 1.60% | 1.60% | 1.60% | 1.60% | 1.70% | 1.70% | 1.70% | 1.80% | 1.80% | 1.90% | 1.90% | 2.00% | 2.00% | - |
| Capital Economics | 1.40% | 1.60% | 1.80% | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% | 2.50% | 2.70% | 2.80% | 2.90% | 3.00% | 3.20% |
| **10yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | - |
| Capital Economics | 2.20% | 2.30% | 2.40% | 2.55% | 2.60% | 2.70% | 2.70% | 2.80% | 2.90% | 3.10% | 3.20% | 3.30% | 3.40% | 3.60% |
| **25yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 2.90% | 2.90% | 2.90% | 3.00% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | - |
| Capital Economics | 2.75% | 2.90% | 3.05% | 3.15% | 3.25% | 3.25% | 3.35% | 3.45% | 3.55% | 3.65% | 3.75% | 3.95% | 4.05% | 4.15% |
| **50yr PWLB Rate** | | | | | | | | | | | | | | |
| Capita Asset Services | 2.70% | 2.70% | 2.70% | 2.80% | 2.80% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | - |
| Capital Economics | 2.70% | 2.80% | 2.90% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% | 3.60% | 3.70% | 3.80% | 3.90% | 4.10% |

**ANNEX B3**

**FITCH RATING EXPLANATION**

**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

**Changes to the Credit Rating Methodology in 2015:**

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory sector levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria; the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

**ANNEX B4**

## SEFTON COUNCIL – APPROVED COUNTRIES FOR INVESTMENTS

*This list is based on those countries which have sovereign ratings of AA- or higher (based on the lowest from the ratings awarded by Fitch, Moody's or S&P as at 27/01/2017) and also have banks operating in sterling markets which have credit ratings of green or above in Sector's credit worthiness service.*

**AAA**

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- USA

**AA+**

- Finland

**AA**

- Abu Dhabi (UAE)
- France
- Qatar
- United Kingdom

**AA-**

- Belgium

Agenda Item 5

**ANNEX C**

# SEFTON COUNCIL

## MINIMUM REVENUE PROVISION

## POLICY STATEMENT

## 2016/17

**CORPORATE RESOURCES**

**SEFTON COUNCIL**

**MINIMUM REVENUE PROVISION POLICY**

## 1. Background

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.

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].

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

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

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**

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

**Option 2 – Capital Financing Requirement Method**

This is very similar to 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**

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.

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**

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

**Option 4 – Depreciation Method**

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

**Use of Capital Receipts**

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

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

### 3. MRP Policy Adopted for 2015/16

In order to determine its MRP for 2015/16 the Council applied the following strategy:

| Supported borrowing | Basis of MRP Calculation |
| --- | --- |
| Capital expenditure incurred before 1 April 2008 | Annuity Basis over 50 years. |
| Capital expenditure incurred after 31 March 2008. | 2% straight line charge to ensure that balances are fully provided for within 50 years. |

| Unsupported (prudential) borrowing | Basis of MRP Calculation |
| --- | --- |
| Capital expenditure incurred after 31 March 2008. | Calculated using (Option 3) the estimated life method on an equal instalment basis. |

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

In practice a number of standard asset lives have been applied to calculate the MRP charge for unsupported (prudential) borrowing incurred after 31 March 2008. The asset lives used are in most cases the same lives applied to calculate the depreciation in the Council's published accounts. These are summarised below:

| | |
| --- | --- |
| Intangibles (Software) | 3 Years |
| Vehicles, Plant & Equipment | 5 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 and Buildings | 25 Years |
| Infrastructure | 40 Years |

Changes to the policy in 2015/16 released a saving of £20m and of this £8m was used to support the 2016/17 budget, with £12m being used to support the 2017/18 to 2019/20 MTFP. These changes to the policy will release up to £10m which will again be used to contribute to the achievement of the £64m savings target over the MTFP period.

## 4. Review of the estimated lives used in the MRP calculation

A review of the estimated asset lives used in the calculation of the MRP charge for unsupported (prudential) borrowing since 31 March 2008 has been undertaken. The review compared the asset lives used to calculate depreciation on land and buildings for capital schemes were expenditure exceeded £250,000. This represented a sample of more than 90% of capital expenditure on land and buildings between 1 April 2008 and 31 March 2015. The review revealed some significant differences in the asset lives recorded on the asset register compared to the 25 year average life assumed in the MRP calculation. This indicated that the MRP charge had resulted in an overprovision between 2009/10 and 2015/16. The MRP charges for this period were recalculated using the following asset lives:

| Scheme | Type | Estimated Life |
|---|---|---|
| Crosby Lakeside Adventure Centre | New Build | 50 Years |
| Litherland School Pathfinder | New Build | 50 Years |
| Netherton Activity Centre | New Build | 50 Years |
| Maghull Leisure Facility | New Build | 50 Years |
| South Sefton Investment Centre | New Build | 50 Years |
| St Peters House (Purchase) | Acquisition | 40 Years |
| Floral Hall & Theatre | Major Refurbishment | 30 Years |
| Southport Cultural Centre (Atkinson) | Major Refurbishment | 30 Years |
| Southport Market | Major Refurbishment | 30 Years |
| St Peters House (Refurbish) | Major Refurbishment | 30 Years |

MRP charges for unsupported (prudential) borrowing between 2009/10 to 2015/16 totalled £17.643m. After adjusting for the asset lives shown in the table above the MRP charge reduced to £14.979m. This indicates that the MRP charge was overstated by £2.664m during this period.

It is proposed that the MRP charge for 2016/17 be adjusted (reduced) by £2.664m to recover the overprovision.

## 5. MRP Policy for 2016/17

Supported Borrowing

In 2015/16 the Council changed the methodology used to calculate the MRP charge for Capital expenditure incurred before 1 April 2008 funded by Supported Borrowing to an Annuity Basis. At the same time the policy for Capital expenditure incurred after 31 March 2008 funded by Supported Borrowing was changed to a Straight-Line Basis. During the closedown of the 2015/16 accounts the Council’s Auditors commented on the inconsistency in the treatment of Post 31 March 2008 Supported Borrowing. It is therefore recommended that the Council change the methodology used to calculate the MRP charge on Capital expenditure incurred after 31 March 2008 funded by Supported Borrowing to an Annuity Basis over a 50 year period and backdated to 1 April 2015 so that there is a single consistent approach to the calculation of the MRP charge on all supported borrowing.

Backdating this change will release a further overprovision of £0.182m (made in 2015/16) which will be offset against the 2016/17 MRP charge.

It should be noted that the change to an annuity basis does not result in any overall saving over the life of the assets as the total amount borrowed still needs to be repaid. However, there is a reduction in the MRP charge in the earlier years. Based on Post-2008 Supported Borrowing at 31 March 2016, the change to an annuity calculation will result in a lower MRP charge from 2016/17 to 2043/44 and a higher MRP charge from 2044/45 to 2064/65.

- The largest reduction in the annual charge occurs in 2015/16 when the MRP charge would be £0.182m lower than if calculated on a straight-line basis.
- The largest increase in the annual charge occurs in 2064/65 when the MRP charge would be £0.316m higher than if calculated on a straight-line basis.

Unsupported (Prudential) Borrowing

It is also recommended that the basis for the MRP charge on Unsupported (Prudential) Borrowing be changed from a straight-line basis to an Annuity basis from 1 April 2016. This change will bring the treatment of unsupported borrowing in-line with the treatment of supported borrowing.

It should be noted that the change to an annuity basis does not result in any overall saving over the life of the assets as the total amount borrowed still needs to be repaid. However, there is a reduction in the MRP charge in the earlier years. Based on Post-2008 Unsupported Borrowing at 31 March 2016 the change to an annuity calculation will result in a lower MRP charge from 2016/17 to 2031/32 and a higher MRP charge from 2032/33 to 2062/63.

- The largest reduction in the annual charge occurs in 2016/17 when the MRP charge would be £0.753m lower than if calculated on a straight-line basis.
- The largest increase in the annual charge occurs in 2054/55 when the MRP charge would be £0.384m higher than if calculated on a straight-line basis.

MRP Policy 2016/17

The recommended MRP policy for 2016/17 is summarised below:

| Supported borrowing | Basis of MRP Calculation |
|---|---|
| Capital expenditure incurred before 1 April 2008 | Annuity Basis over 50 years (commencing 1 April 2015) |
| Capital expenditure incurred after 31 March 2008. | Annuity Basis over 50 years (commencing 1 April 2015) |

| Unsupported (prudential) borrowing | Basis of MRP Calculation |
|---|---|
| Capital expenditure incurred after 31 March 2008. | Calculated using (Option 3) the estimated life method on an Annuity Basis (commencing 1 April 2016) |

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

Standard asset lives to be applied to calculate the MRP charge for unsupported (prudential) borrowing incurred after 31 March 2008:

| | |
|---|---|
| Intangibles (Software) | 3 Years |
| Vehicles, Plant & Equipment | 5 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 |
| Infrastructure | 40 Years |

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

The Chief Finance Officer will retain discretion to use alternative lives for assets (capital schemes) that have particular characteristics that mean using the standard life would not be considered appropriate. It is anticipated that this will only apply in very limited circumstances.

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, paragraph 13 of the DCLG 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.

Use of Capital Receipts to Reduce MRP Charges

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

## 6. Impact of Recommendations on MRP Change in 2016/17

By adopting the recommendations set out above the underlying MRP charge for 2016/17 would be £4.061m (excluding PFI and leasing schemes), which would be reduced by a further £2.846m for the impact of the MRP review. The savings compared to the 2015/16 policy are shown below:

| **MRP Charge 2016/17** | Charge Based on Current (2015/16) Policy £000 | Charge Based on Proposed (2016/17) Policy £000 | Variation £000 |
|---|---|---|---|
| Supported Borrowing (Pre 01/04/08) | 807 | 807 | 0 |
| Supported Borrowing (Post 31/03/08) | 289 | 111 | -178 |
| Unsupported Borrowing | 3,896 | 3,143 | -753 |
| **Underlying MRP Charge** | **4,992** | **4,061** | **-931** |
| Unsupported Borrowing - Review of Asset Lives | -2,664 | -2,664 | 0 |
| Supported Borrowing (Post 31/03/08) - Backdating Annuity to 1 April 2015 | n/a | -182 | -182 |
| **Adjusted MRP Charge** | **2,328** | **1,215** | **-1,113** |

In both cases it is assumed that the unwinding of the previous overprovision of MRP charges on unsupported borrowing would be implemented.

This page is intentionally left blank

**Report to:** Cabinet **Date of Meeting:** 16 February 2017

Council 2 March 2017

**Subject:** The Prudential Code for Capital Finance in Local Authorities – Prudential Indicators 2017/2018

**Report of:** Head of Corporate Resources **Wards Affected:** All

**Is this a Key Decision?** No **Is it included in the Forward Plan?** No

**Exempt/Confidential** No

**Purpose/Summary**

To establish the Prudential Indicators for Sefton required under the Prudential Code for Capital Finance in Local Authorities.

**Recommendation(s)**

Cabinet to recommend to Council that:

a) The Prudential Indicators as detailed in the report, and summarised in Annex A, be approved as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
b) Relevant Prudential Indicators be amended, should any changes to unsupported borrowing be approved as part of the 2017/2018 Revenue Budget;
c) It be noted that estimates of capital expenditure may change as grant allocations are received (paragraph 2.2); and
d) Delegated authority is given to the Head of Corporate Resources in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 5 of the report.

**How does the decision contribute to the Council's Corporate Objectives?**

| Corporate Objective | | Positive Impact | Neutral Impact | Negative Impact |
|---|---|---|---|---|
| 1 | Creating a Learning Community | ✓ | | |
| 2 | Jobs and Prosperity | ✓ | | |
| 3 | Environmental Sustainability | ✓ | | |
| 4 | Health and Well-Being | ✓ | | |
| 5 | Children and Young People | ✓ | | |
| 6 | Creating Safe Communities | ✓ | | |
| 7 | Creating Inclusive Communities | ✓ | | |

| | | | | |
|---|---|---|---|---|
| 8 | Improving the Quality of Council Services and Strengthening Local Democracy | ✓ | | |

**Reasons for the Recommendation:**
To enable the Council to effectively manage its Capital Financing activities, and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**
There are no financial implications as a result of this report.

**(B) Capital Costs**
None.

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

| | |
|---|---|
| **Legal** | Local Authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003 |
| **Human Resources** | None |
| **Equality** | |
| 1. No Equality Implication | √ |
| 2. Equality Implications identified and mitigated | |
| 3. Equality Implication identified and risk remains | |

**Impact on Service Delivery:**
None.

**What consultations have taken place on the proposals and when?**
The Head of Corporate Resources prepared the report (FD 4491/17)

The Head of Regeneration and Compliance has been consulted and has no comments on the report (LD 3774/17).

**Are there any other options available for consideration?**
None.

**Implementation Date for the Decision**
With effect from 1 April 2017.

**Contact Officer:** Stephan Van Arendsen
**Tel:** 0151 934 4081
**Email:** Stephan.VanArendsen@sefton.gov.uk

**Background Papers:** None.

## 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. This report presents for approval the Prudential Indicators required to be set by the Council in 2017/2018 to comply with the code.

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

(i) Capital Expenditure (Section 2);
(ii) Financing Costs/Net Revenue Stream (Section 3);
(iii) Capital Financing Requirement (Section 4);
(iv) External Debt (Section 5-7);
(v) Impact on Council Tax (Section 8);
(vi) Treasury Management Indicators (Section 9).

These indicators are presented in the following paragraphs and summarised at Annex A.

## 2. Prudential Indicator – Capital Expenditure

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

2.2. The actual capital expenditure that was incurred in 2015/2016 and the estimates for the current and future years capital programme recommended for approval are:-

| **Capital Expenditure - 2015/2016 to 2019/2020** | | | | | |
|---|---|---|---|---|---|
| | 2015/16<br>£m<br>Actual | 2016/17<br>£m<br>Estimate | 2017/18<br>£m<br>Estimate | 2018/19<br>£m<br>Estimate | 2019/20<br>£m<br>Estimate |
| TOTAL | 22.489 | 27.153 | 25.435 | 18.875 | 12.809 |

2.3. The estimated levels of expenditure above represent those elements approved by Council and which have been included within the capital programme. This may change as grant allocations are made known to the Council and are approved for inclusion within the capital programme. If any changes occur an update will be provided.

## 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.

3.2. Estimates of the ratio for the current and future years and the actual figures for 2015/2016 are:

| Financing Costs / Net Revenue Stream | | | | | |
|---|---|---|---|---|---|
| | 2015/16 £m Actual | 2016/17 £m Estimate | 2017/18 £m Estimate | 2018/19 £m Estimate | 2019/20 £m Estimate |
| Ratio | 2.2% | 1.6% | 4.3% | 4.2% | 4.1% |

3.3. The estimates of financing costs include current commitments, proposals contained in the capital programme, additional borrowing required as a result of a payment in advance to Merseyside Pension Fund in 2017/18, and headroom of £40m to allow for new borrowing requirements in the capital programme. This increase provides the flexibility for the Council to support any potential strategic investment or economic growth activity as set out with the Framework for change. Any opportunities under these pillars of the Framework for change will be evaluated and approved on a case by case basis.

3.4. An increase of 2.5% in the ratio from 2016/17 to 2017/18 can be explained by:
- Lower Minimum Revenue Provision (MRP) in 2016/17 when compared to 2017/18
- An increase to forecast external interest payments in 2017/18 as a result of new borrowing as mentioned in 3.3 above
- Lower external interest receipts in 2017/18 due to increased internal borrowing meaning that less surplus cash is available for investments.

## 4. Prudential Indicator – Capital Finance Requirement

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

4.2. Estimates of the end of year Capital Financing Requirement for the current and future years are set out in the table below:

| Capital Financing Requirement | | | | | |
|---|---|---|---|---|---|
| | 31/03/2016 £m Actual | 31/03/2017 £m Estimate | 31/03/2018 £m Estimate | 31/03/2019 £m Estimate | 31/03/2020 £m Estimate |
| General Fund | 203.178 | 200.278 | 200.107 | 197.030 | 195.173 |

4.3 The reduction in the CFR reflects the reduced borrowing required for the capital programme as spending falls over time.

4.4. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key indicator of prudence:
*"In order to ensure that the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short-term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".*

5. **Prudential Indicator – Borrowing Limits**

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

5.2. The Operational Boundary

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

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

| **Operational Boundary** | | | | |
|---|---|---|---|---|
| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m |
| Borrowing | 120.000 | 179.000 | 180.000 | 180.000 |
| Other Long Term Liabilities | 4.500 | 4.500 | 3.500 | 3.500 |
| TOTAL | 124.500 | 183.500 | 183.500 | 183.500 |

5.2.3 The Operational Boundary has been increased in 2017/18 to accommodate new borrowing as outlined in paragraph 3.3.

5.2.4. The Council is asked to approve these limits and to delegate authority to the Head of Corporate Resources in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year. Any such changes will be reported to Members at the next available meeting.

5.3. The Authorised Limit

5.3.1. The Authorised Limit sets a limit 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 2017/2018 will be the statutory limit determined under section 3 (1).

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

| **Authorised Limit** | | | | |
|---|---|---|---|---|
| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m |
| Borrowing | 135.000 | 194.000 | 195.000 | 197.000 |
| Other Long Term Liabilities | 4.500 | 4.500 | 3.500 | 3.500 |
| TOTAL | 139.500 | 198.500 | 198.500 | 200.500 |

5.2.3 The Authorised Limit has been increased in 2017/18 to accommodate new borrowing as outlines in paragraph 3.3.

## 6. Prudential Indicator – Actual External Debt

6.1. The Prudential Code requires that in setting indicators for 2017/2018, the Council reports it actual levels of external debt as at 31 March 2016. The Council's actual external debt at 31 March 2016 was £126.828m comprising £110.177m borrowing, £12.275m in respect of finance lease liabilities, and £4.376m other long-term liabilities.

## 7. Gross Debt and the Capital Financing Requirement

7.1. This prudential indicator is used to ensure that the authority does not borrow in advance of need. If the authority borrowed in advance of need then the net position would be negative – i.e. borrowing greater than the CFR. The figures below illustrate that the Council is not intending to borrow in advance of need, and that there is a significant level of "internal borrowing".

| Gross and Net Debt | | | | |
|---|---|---|---|---|
| | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m |
| CFR | 200.278 | 200.107 | 197.030 | 195.173 |
| Net Borrowing | 115.143 | 174.353 | 175.049 | 176.644 |
| Net Position | 85.135 | 25.754 | 21.981 | 18.529 |

## 8. Prudential Indicator – Impact on Council Tax

8.1. Under the Prudential Code, Local Authorities are able to decide the level of borrowing required to meet the demands of the capital programme. Any unsupported borrowing will have to be funded by Council Taxpayers. As such, these indicators are a key measure of affordability of unsupported borrowing undertaken to support capital investment decisions.

8.2. The indicators for the impact on Council Tax of unsupported borrowing are to reflect any ADDITIONAL/NEW unsupported borrowing approval. As stated in 3.3 (above) headroom of £40m has been forecast in 2017/18 for new starts in the capital programme.

| Incremental Impact of Capital Investment Decisions on Council Tax | | | |
|---|---|---|---|
| | 2017/18 | 2018/19 | 2019/20 |
| Unsupported Borrowing (£m) | 40.000 | 0 | 0 |
| Incremental Impact on Council Tax (£) | 12.13 | 44.69 | 43.87 |

8.3. In the event that any amendments are made to the New Starts Capital Programme, the indicator will be recalculated accordingly.

## 9. Prudential Indicator – Treasury Management

9.1. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The annual Policy and Strategy Documents establish the following limits/controls for interest rate exposure, debt maturity profiles and an upper limit for investments made by the Council for more than 364 days:

9.2 Interest Rate Exposure

i) An upper limit on its fixed interest rate exposures for 2017/2018 – 2019/2020 of 340% of its net outstanding principal sums;
ii) An upper limit on its variable interest rate exposures for 2017/2018 – 2019/2020 of -20% of its net outstanding principal sums.

This indicator calculates exposure of either fixed or variable rate borrowings, less fixed or variable rate investments, expressed as a percentage of both fixed and variable rate borrowings net of fixed and variable rate investments.

9.3 Debt Maturity Profile

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

| **Fixed Rate Debt Maturity** | Upper Limit | Lower Limit |
|---|---|---|
| Under 12 months | 35% | 0% |
| 12 months and within 24 months | 40% | 0% |
| 24 months and within 5 years | 40% | 0% |
| 5 years and within 10 years | 40% | 0% |
| 10 years and above | 90% | 25% |

9.4 Investments Over 1 Year

An upper limit on the value of non-specified investments over 1 year, but less than 5 years (as approved in the annual Treasury Management Policy and Strategy Documents) is set at 40% of Total Investments. This limit will be kept under review to take advantage of any opportunities in the current money market. Members will be advised of any change.

## 10. Monitoring Prudential Indicators

10.1. Having established the Prudential Indicators the Head of Corporate Resources will monitor them during the year and report on actual performance to the Audit & Governance Committee and also as part of the Council's Annual Accounts. In the event of any variations during a financial year, reports will be presented to Cabinet highlighting the variation, the reason and the corrective action to be taken.

## Summary of Prudential Indicators.

## ANNEX A

| Capital Expenditure - 2015/2016 to 2019/2020 (Para 2) | | | | | |
|---|---|---|---|---|---|
| | 2015/16<br>£m<br>Actual | 2016/17<br>£m<br>Estimate | 2017/18<br>£m<br>Estimate | 2018/19<br>£m<br>Estimate | 2019/20<br>£m<br>Estimate |
| TOTAL | 22.489 | 27.153 | 25.435 | 18.875 | 12.809 |

| Financing Costs / Net Revenue Stream (Para 3) | | | | | |
|---|---|---|---|---|---|
| | 2015/16<br>Actual | 2016/17<br>Estimate | 2017/18<br>Estimate | 2018/19<br>Estimate | 2019/20<br>Estimate |
| Ratio | 2.2% | 1.6% | 4.3% | 4.2% | 4.1% |

| Capital Financing Requirement (Para 4) | | | | | |
|---|---|---|---|---|---|
| | 31/03/2016<br>£m<br>Actual | 31/03/2017<br>£m<br>Estimate | 31/03/2018<br>£m<br>Estimate | 31/03/2019<br>£m<br>Estimate | 31/03/2020<br>£m<br>Estimate |
| General Fund | 203.178 | 200.278 | 200.107 | 197.030 | 195.173 |

| Operational Boundary (Para 5) | | | | |
|---|---|---|---|---|
| | 2016/17<br>£m | 2017/18<br>£m | 2018/19<br>£m | 2019/20<br>£m |
| Borrowing | 120.000 | 179.000 | 180.000 | 180.000 |
| Other Long Term Liabilities | 4.500 | 4.500 | 3.500 | 3.500 |
| Total | 124.500 | 183.500 | 183.500 | 183.500 |

| Authorised Limit (Para 5) | | | | |
|---|---|---|---|---|
| | 2016/17<br>£m | 2017/18<br>£m | 2018/19<br>£m | 2019/20<br>£m |
| Borrowing | 135.000 | 194.000 | 195.000 | 197.000 |
| Other Long Term Liabilities | 4.500 | 4.500 | 3.500 | 3.500 |
| Total | 139.500 | 198.500 | 198.500 | 200.500 |

| Gross Debt and the CFR | | | | |
|---|---|---|---|---|
| | 2016/17<br>£m | 2017/18<br>£m | 2018/19<br>£m | 2019/20<br>£m |
| CFR | 200.278 | 200.107 | 197.030 | 195.173 |
| Net Borrowing | -115.143 | -174.353 | -175.049 | -176.644 |
| Net Position | 85.135 | 25.754 | 21.981 | 18.529 |

| Incremental Impact of Capital Investment Decisions on Council Tax | | | |
|---|---|---|---|
| | 2017/18 | 2018/19 | 2019/20 |
| Unsupported Borrowing (£m) | 40.000 | 0.000 | 0.000 |
| Incremental Impact on Council Tax (£) | 12.13 | 44.69 | 43.87 |

**Limit on Interest Rate Exposure (Para 9)**

| | Upper Limit | Lower Limit |
|---|---|---|
| Fixed Borrowing / Investment | 340% | -20% |
| Variable Borrowing / Investment | 340% | -20% |

**Fixed Rate Debt Maturity (Para 9)**

| | Upper Limit | Lower Limit |
|---|---|---|
| Under 12 months | 35% | 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 above | 90% | 25% |

**Investments over 1 Year (Para 9)**

| | |
|---|---|
| Non-specified investments over 1 year but less than 5 years with approved Banks / Building Societies | 40% of Total Investments |

This page is intentionally left blank

| | | | |
|---|---|---|---|
| **Report to:** | Cabinet | **Date of Meeting:** | 16 February 2017 |
| | Council | | 2 March 2017 |
| **Subject:** | Robustness of the 2017/18 Budget Estimates and the Adequacy of Reserves: Local Government Act 2003 - Section 25 | | |
| **Report of:** | Head of Corporate Resources | **Wards Affected:** | All |
| **Is this a Key Decision?** | Yes | **Is it included in the Forward Plan?** | Yes |
| **Exempt/Confidential** | | No | |

**Purpose/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 to Council at this meeting.

**Recommendation(s)**

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

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

The Cabinet and Council are requested to have regard to the matters raised in this report during the final stages of determining the budget for 2017/18.

**How does the decision contribute to the Council's Corporate Objectives?**

| | Corporate Objective | Positive Impact | Neutral Impact | Negative Impact |
|---|---|---|---|---|
| 1 | Creating a Learning Community | | ✓ | |
| 2 | Jobs and Prosperity | | ✓ | |
| 3 | Environmental Sustainability | | ✓ | |
| 4 | Health and Well-Being | | ✓ | |
| 5 | Children and Young People | | ✓ | |
| 6 | Creating Safe Communities | | ✓ | |
| 7 | Creating Inclusive Communities | | ✓ | |
| 8 | Improving the Quality of Council | ✓ | | |

| | | | | |
|---|---|---|---|---|
| | Services and Strengthening Local Democracy | | | |

**Reasons for the Recommendation:**

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

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

Decisions taken as a consequence of this report will influence the Council's Revenue Budget and Council Tax for 2017/18 and thereby shape the Council's financial plan for future years.

**(B) Capital Costs**

**None**

**Implications:**

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

| | |
|---|---|
| **Legal -** | The Council is required to set a Budget and Council Tax level by 9 March 2017 and must consider the comments of the Chief Financial Officer before that decision is taken. |
| **Human Resources** - None | |
| **Equality**<br>1. No Equality Implication<br>2. Equality Implications identified and mitigated<br>3. Equality Implication identified and risk remains | √<br><br><br> |

**Impact on Service Delivery:**

There is no direct impact on services.

**What consultations have taken place on the proposals and when?**

The Head of Corporate Resources is the author of the report (FD 4479/17)

Head of Regulation & Compliance has been consulted and (LD) 3762/17)

**Are there any other options available for consideration?**

No

**Implementation Date for the Decision**

Following the Budget Council Meeting

**Contact Officer:** Stephan Van Arendsen
**Tel:** 0151 934 4082
**Email:** Stephan.vanarendsen@sefton.gov.uk

**Background Papers:**

There are no background papers available for inspection.

1. **Introduction**

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

2. **ROBUSTNESS OF BUDGET ESTIMATES**

2.1 When preparing the budget for 2017/18 and the three year financial strategy, the Council's Strategic Leadership Board have led and been fully engaged in the process and have been challenged to ensure that services can be delivered within the available funding and that estimates of expenditure and income are realistic. As a result the Strategic Leadership Board has confirmed that the proposals made within this budget package both from the Public Sector Reform projects and service options are deliverable.

2.2 The proposed budget due to the scale of the funding gap faced by the Council has been prepared with careful consideration and full acknowledgement of the risk and uncertainty around both the proposals made and existing pressures faced by the Council. It is therefore important that these proposals are considered alongside the level of reserves held.

2.3 In order to provide assurance that the Council's budget estimates are robust and that the Council is adequately protected against unbudgeted financial pressures and the impact on Council Taxpayers is minimised, a number of factors are considered as part of the budget planning process.

**Factors to be Considered**

**Four year settlement and increased reliance on local funding estimates**

2.4 The financial settlement received for 2017/18 provided details of the funding levels to be received by the Council in the forthcoming year and the subsequent 2 financial years. These levels reflected the decision of the Council to accept central government's offer of a 4 year financial settlement (2016/17 to 2019/20).

2.5 Whilst this certainty is welcomed there are significant changes proposed to local government funding during the period of the Council's Medium Term Financial Plan 2017/18 to 2019/20, which will require careful monitoring and engagement. These include the introduction of the 100% Business Rates Retention Scheme, changes to the funding of Schools, reform of the New Homes Bonus Scheme and funding changes associated with Adult Social Care, namely the Improved Better Care Fund and the Adult Social Care Council Tax Levy.

2.6 The future years funding estimates in relation to these issues will be kept under review and refined accordingly as details become available. In respect of the 2017/18 budget, estimates are based upon confirmed funding due or latest detailed estimates e.g. council tax receipts.

2.7 As the Council has developed this budget package, in addition to having to meet the severe funding reductions of £64m over the period, it has to be mindful and is indeed cognisant that its future funding is now more closely aligned to the generation of local income as opposed to central government support than would have historically have been the case.

2.8 The budget proposed therefore acknowledges not only the need to reform current service delivery and make savings in a number of areas, but also that the future financial sustainability of the Council will need to be supported through the drive to deliver growth and develop additional and increased income streams. The current expenditure plans within this budget rely on sustaining existing levels of economic activity with a small element of growth in Council Tax. This has however been more than offset by the impact of New Homes Bonus reform that was announced by central government in December 2016.

**Maintaining Service Delivery**

2.9 The scale of the budget reductions facing the Council over the next 3 years up until 2019/20 are severe and will require a transformational approach to ensure that the Council's core purpose can be delivered. This is subsequently reflected in the budget proposals presented.

2.10 Whilst there will be an impact on the level of service that the Council is able to provide, all proposed changes are subject to careful consideration, impact assessment and consultation before implementation. This factor is reflected in the phasing of the delivery of savings. The funding gap facing the Council over the next 3 years is 'front-loaded' in 2017/18, however due to the scale of change proposed and the nature of existing contracts, the majority of savings due will not be delivered until 2018/19 onwards. This reflects the careful planning and approach to risk that will be undertaken in order that the right outcomes are reached for residents. From a financial point of view, whilst this approach will require the use of some reserves to support the budget in 2017/18, the delivery of sustainable savings over the period of this medium term financial plan and beyond will ensure that both service delivery and financial management responsibilities are discharged effectively. Indeed it is proposed that the majority of the reserves used in 2017/18 will be replenished in 2019/20.

**Anticipated New Demand Pressures**

2.11 The budget setting process has specifically taken into account the impact of demand for Council services. This is particularly reflected in the Council's approach to the demand led services such as Children's and Adults Social Care and the development of the Early Intervention and Prevention project.

2.12 Likewise the Council in developing its 3 year plan has been acutely aware of the impact of not receiving the budgeted funding from the CCG's in respect of the Better Care Fund in recent years and the pressure that this has placed on Adult Social Care. This is in addition to the pressure due from the introduction of the

National Living Wage up until 2019/20. As a result of these issues, the Council will utilise the Improved Better Care Fund and Adult Social Care levy to minimise the impact of funding reductions on Adult Social Care between 2017/18 and 2019/20, with other Council Services experiencing a disproportionately higher level of reductions

**Resources to Deliver Change**

2.13 The approach to this 3 year budget package is transformational in nature and different to the approach taken by the Council in previous years as it seeks to address a funding shortfall of £64m. In order to deliver this, the shape of the Council and the approach to service delivery will change significantly in a number of areas. Within the budget, provision exists to enable the delivery of a number of projects. This provision will support investment in infrastructure to support front line services, investment in ICT and specialist advice and support as required. This funding will be held centrally and bids will be evaluated on a case by case basis by the Chief Executive and the Leader of the Council in order to determine allocation.

**Inflation and Annual Cost Increases**

2.14 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 is no provision for price inflation. Due to the severity of the financial challenge facing the Council over the next 3 years, services will be required to manage any such pressure within their existing cash limits.

**Impact of Previous Years' Budget**

2.15 Throughout this budget process, Heads of Service have been engaged to understand the impact of any budget pressures that could impact upon the 2017/18 to 2019/20 budget plan from the 2016/17 budget. As a result of this work, some undelivered savings have been met through a residual central budget allocation. Any remaining issues have been resolved as far as possible through the re-alignment of existing budgets with services.

**Financial Management**

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

2.17 It has been stated both within this report and also the wider budget report that the budget estimates contained for the Council over the next 3 years reflect the Council's ambition to deliver services that align with its 2030 vision, core purpose and ensure that it remains financially sustainable.

2.18 In order to manage the delivery of these objectives and the different risks that are presented when compared to previous years, the Strategic Leadership Board and Members will need to monitor progress and delivery of each proposal and instigate remedial action where issues are identified. The Council, despite having to address budget shortfalls since 2010 of £169m has a strong track record of delivering savings, however due to the funding gap faced over the next 3 years and the transformational activity proposed, this monitoring will be of even greater importance.

**Management of Risk**

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

2.20 Given these controls and processes, the likelihood of unanticipated budget issues has been reduced as far as possible, however due to the continual issues presented in respect of the demand led services (particularly Adults and Children's Social Care) and the changes in local government finance, should any issues arise, alternative short term savings will be identified until longer term options are developed.

**Capital Strategy and Strategic Investment**

2.21 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 2017/18 and indicative plans for 2018/19 and 2019/20.

2.22 In order to support the economic growth and strategic investment work streams it is likely that the Council will need to invest significant levels of resources over the course of this 3 year budget period in order to deliver the objectives and facilitate the financial returns associated with these areas.

2.23 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**

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

3. **RESERVES STRATEGY 2017/2018**

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

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

- State of the economy (and its impact on Council costs/funding)
- Knowledge of future changes to the Council's responsibilities
- Specific risks relating to the changes in Council services

3.4 A historical benchmark minimum level that is used by a number of authorities is for the General Fund Reserve to be maintained at between 3-5% of the Council's net budget. This can be considered to be a minimum level of reserves in keeping with the long term background risks the Council shares in common with all other councils. This is referred to as the normal risk accepted. However this rate will not take account of variable factors such as the economic climate, government policy and local factors. Therefore, alongside the normal risk the Council also needs to make an assessment of abnormal risks it may need to fund. These include the following elements.

## National Considerations

3.5 **Impact of economic climate on Council costs** - the current climate continues to prove challenging with the potential for business closure, lower than normal income levels and shortage of alternative funding sources from partners. As Council funding is now more dependent on the performance of the local business sector it is more exposed to the consequences of businesses failing or a lack of demand for local facilities.

3.6 **Anticipated reductions in Government funding** – the level of funding that it is anticipated that the Council will receive in 2017/18 reflects a reduction of £12.586m from the previous year and is anticipated to fall by a total of £29.653m by 2019/20. These funding reductions are addressed by the proposals within the Budget Report. However, the funding allocations for some elements in future years are indicative or are subject to an ongoing consultation period. These reductions and any future funding changes still represent a risk.

## 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 best value for money for its residents. In addition, the budget proposals involve significant transformational change as to how services are provided. This will result in significant changes to working practices, commissioning relationships and governance arrangements. As these become embedded within the organisation this should reduce the risk to the organisation however there is still a degree of risk that needs to be allowed for.

3.8 **Impact of Rising Demand for Services** – The Council continues to face increasing demand for its services due to demographic growth pressures in Adult Social Care and pressures relating to Looked after Children. Investment has been included in the 2016-17 budget but there is still a degree of risk that needs to be allowed for in future years.

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

## Budget Setting Assumptions

3.10 **Sensitivity of budget assumptions** - The Council's budgets for 2017/18 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 a level of funding in earmarked reserves which, in some cases, could be used to moderate the impact of future cost increases. These include reserves for future potential insurance claims and funding that Members have set aside for specific purposes. The presence of these reserves for specific purposes reduces the scale of risk the General Fund has to guard against. It should be noted that these reserves have been set up for specific purposes and as such their use will be in accordance with that approved.

## 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 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 Plan developed** – Given the scale of the funding reductions that the Council faces a three year plan has been developed which will allow it to plan ahead with more certainty and this has helped to ensure that savings plans are identified well in advance of their implementation and short term reactive measures have not been necessary.

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

| **Factors Considered** | **Risk Impact % of net budget** | **Impact on General Fund Balances** |
|---|---|---|
| | | **£m** |
| **Normal Risk Level (lower level)** | **3.0%** | **5.9** |
| National Considerations | | |
| Impact of economic climate on Council costs | 1.0% | 2.0 |
| Anticipated reductions in Government Funding | 1.0% | 2.0 |
| Local Considerations | | |
| Delivery of planned changes in service delivery methods/contracts | 1.5% | 3.0 |
| Costs at risk from potential legal challenges | 0.5% | 1.0 |
| Rising demand for services | 1.0% | 2.0 |
| Budget Setting Assumptions | | |
| Sensitivity of budget assumptions | 1.0% | 2.0 |
| Significant earmarked balances | -2.5% | -5.0 |
| Management / Member Actions | | |
| Clear corporate / Member messages | -1.5% | -3.0 |
| Three year plan developed | -1.0% | -2.0 |
| **Total Abnormal Risk** | **1.0%** | **2.0** |
| **Total Risk** | **4.0%** | **7.9** |

3.15 This analysis shows that a risk adjusted assessment of the required level for the General Fund in 2017/18 should be in the region of £7.9m. A range of £1.0m is advised around this figure so a General Fund between £6.9m and £8.9m would be considered prudent. This represents 4% of the net budget.

3.16 The Council started 2016/17 with a General Fund balance of £8.178m. Incorporating the latest projections of expenditure for 2016/17 and the planned use of General Balances it is estimated that the level of the General Fund by 31 March 2017 will be £7.209m. This would be within the assessed prudent range for 2017/18 and the risk assessed level will be kept under constant review.

3.17 The level of risk and the associated levels of General Fund balance required to hedge against that risk will be reviewed on an ongoing basis. In the current times of uncertainty, and financial pressures, the S151 officer considers it prudent to maintain reserves at a higher level than might be expected in a more stable economic climate, and to review against the extent of future ambitions and risks during the forthcoming year.

## Earmarked Reserves

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

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

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

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

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

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

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

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

| | April 2016 | Anticipated March 2017 |
|---|---|---|
| | £m | £m |
| Earmarked Reserves | | |
| - Strategic Reserves | 35.370 | 25.931 |
| - Committed Reserves | 14.208 | 14.208 |
| - Uncommitted Reserves | 2.803 | 2.803 |
| - Restricted Reserves | 1.714 | 1.813 |
| - Temporary Reserves | 8.959 | 8.824 |
| | **63.054** | **53.579** |
| | | |
| School Earmarked Reserves | 6.035 | 6.035 |
| | **69.089** | **59.614** |

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

3.22 Of the 50 existing earmarked reserves, 33 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 17 are expected to have fulfilled their purpose within the planning period and will be closed at that point. Any surplus funding on these reserves on completion of proposed activities will be appropriated to the General Fund or returned to the original funding source.

3.23 At present the budget package for 2017/18 to 2019/20 assumes that £5m of reserves will be used to support the phasing of savings over the 3 years as the Council delivers its Medium Term Financial Plan and financial sustainability. It is planned that £3m of this will be returned to reserves in 2019/20.

**Comparison of all Revenue Reserves**

3.24 To confirm the appropriateness of the level of revenue reserves held (combining General Fund and Earmarked Reserves) they have been benchmarked against other similar Local Authorities. These comparisons are shown relative to the net budget of each Council to remove the effect of the different sizes of each body.

3.25 The latest available information for other councils reflects March 2016 balances. It can be seen from the analysis that the Council's reserves coverage has been similar to that of its comparator group in the last two years. Levels are currently marginally below the average. Whilst each authority's assessment of risk will vary, the benchmarking process provides a broad indication that levels are adequate but not excessive. The general pattern of increases across all councils reflects the greater risks and uncertainties they face given the reductions in future funding levels.

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|
| **Comparator Average %** | 30.5% | 31.8% | 33.4% | 34.6% |
| **Sefton %** | 22.0% | 27.0% | 33.2% | 32.7% |

## Capital Reserves

### Capital Receipts Reserve

3.26 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.

3.27 The nature of this reserve determines that the balance will vary with the timing of the receipts and the Council's capital schemes that the receipts are being used to fund. The balance at the end of 2015/16 was £5.402m.

### Unapplied Capital Grants and Contributions Reserve

3.28 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 2015/16 was **£8.388m**. This funding will be utilised over the next three 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

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

## 4. CONCLUSION

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

| | | | |
|---|---|---|---|
| **Report to:** | Cabinet | **Date of Meeting:** | 16th February, 2017 |
| **Subject:** | Southport Pier Project – Procurement Proposals | **Wards Affected:** | Dukes, Cambridge |
| **Report of:** | Head of Investment and Employment | | |
| **Is this a Key Decision?** | Yes | **Is it included in the Forward Plan?** | No – Rule 27 form submitted |
| **Exempt/Confidential** | No | | |

**Purpose/Summary**

In accordance with procedure rules, this report seeks Cabinet approval for the proposed method of procurement and the basis of tender evaluation in connection with the proposed major improvements to Southport Pier and the delegated authority for acceptance of the most advantageous bids received.

**Recommendation(s)**

1. Approve the proposed method of procurement and evaluation as set out within the report.

2. Authorise Head of Investment & Employment to accept the most advantageous bid received in each instance if a successful grant offer is received.

3. Subject to 2 above, authorise the Head of Regulation and Compliance to enter into contracts with the successful contractors if a successful grant offer is received.

4. The scheme to be included in the capital programme for 2017/18 that will be presented to Council on 2 March 2017 if the grant is approved.

5. Note the provision made within the existing pier contingency fund for works proposed of this nature

6. It be noted that the proposal was a Key Decision but had not been included in the Council's Forward Plan of Key Decisions. Consequently, the Leader of the Council and the Chair of the Overview and Scrutiny Committee Regeneration & Skills has been consulted under Rule 27 of the Access to Information Procedure Rules of the Constitution, to the decision being made by the Cabinet as a matter of urgency on the basis that it was impracticable to defer the decision until the commencement of the next Forward Plan because of the lead in time required if a grant offer is received.

**How does the decision contribute to the Council's Corporate Objectives?**

| Corporate Objective | | Positive Impact | Neutral Impact | Negative Impact |
|---|---|---|---|---|
| 1 | Creating a Learning Community | | x | |
| 2 | Jobs and Prosperity | x | | |
| 3 | Environmental Sustainability | x | | |
| 4 | Health and Well-Being | x | | |
| 5 | Children and Young People | | x | |
| 6 | Creating Safe Communities | | x | |
| 7 | Creating Inclusive Communities | | x | |
| 8 | Improving the Quality of Council Services and Strengthening Local Democracy | | x | |

**Reasons for the Recommendation:**

Cabinet approval is required to comply with the Council's procedure rules. The recommendations will support the receipt of the most competitive tenders for the proposed works and permit the project to progress in accordance with identified programme requirements subject to a grant offer being received.

**Alternative Options Considered and Rejected:**

All appropriate design and technical options have been considered during the scheme development and it is believed that the final proposals which have received planning and listed building consents represent the most appropriate solution.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**
There are no revenue implications attached to this report.

**(B) Capital Costs**
£2,875,557. An application for external funding of £1.9 million has been submitted to the Coastal Communities Fund with the remainder to be funded from the existing Pier Sinking Fund and S106 should the bid be approved.

| | | | |
|---|---|---|---|
| Capital | Coastal Community Fund | £1,940,000 | Bid submitted |
| | Pier Contingency Fund | £900,557 | Funding in place* |
| | S106 | £35,000 | Funding in place |
| Capital Total | | £2,875,557 | |

The Pier contingency fund will total £807k on 1 April 17, a further £50k will be added to the fund in March 2018 and 2019 giving a total of £907k available for capital match.

**Implications:**

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

| | |
|---|---|
| **Financial**<br>This scheme has a value of £2.9m with £1.9m being subject to a grant award by the Coastal Communities Fund. The remaining funds will be provided through the Pier contingency fund that has been built up over recent years and s106 contributions. In the event that the grant funding is not awarded, the procurement process and scheme will not progress as set out | |
| **Legal** the proposed contract should be procured in compliance with the Public Contracts Regulations 2015 | |
| **Human Resources** | |
| **Equality**<br>1. No Equality Implication | X |
| 2. Equality Implications identified and mitigated | |
| 3. Equality Implication identified and risk remains | |

**Impact of the Proposals on Service Delivery:**

Completion of the Southport Pier project will safeguard the future of the country's oldest and second longest seaside pier, increase the range and quality of the pier's facilities available for visitors and increase the revenue to the Council that is generated by the Pier.

**What consultations have taken place on the proposals and when?**

The Head of Corporate Resources (FD4483/17) and Head of Regulation and Compliance (LD 3766/17) have been consulted and any comments have been incorporated into the report.

**Implementation Date for the Decision**

Following the expiry of the "call-in" period for the Minutes of the Cabinet Meeting

**Contact Officer:** Mark Catherall
**Tel:** 0151 934 2315
**Email:** mark.catherall@sefton.gov.uk

**Background Papers:**

None

## 1. Introduction / Background

1.1 Sefton Council has applied to the Coastal Communities Fund to support the delivery of a major capital project to renovate Southport Pier and construct new income generating facilities. The outcome will be known in April 2017.

1.2 The procurement process needs to commence before April, to enable the Council to be in a position to appoint a contractor to commence works as soon as funding has been confirmed. This is to ensure that works that could be disruptive to the operation of the Pier can be completed before the busy summer trading season, and works over the beach can be completed as a single phase before inclement weather in winter 2017. This would be the most cost effective and least disruptive approach.

1.3 Detailed consultation with the current concessions has taken place in order to mitigate any impact on the busy trading months. It is not expected that the proposed works will have a major impact on the operation of the pier.

1.4 If the Council is not successful in its bid for external funding, the Council would not proceed with this project and there would be no contractual responsibilities with any bidder following the procurement process.

## 2. Southport Pier Project

2.1 The details and objectives for the project were set out in the report Southport Pier and Seafront Coastal Community Fund considered by the Cabinet on 6$^{th}$ October 2016. In essence if funding is approved, the Council will undertake extensive refurbishment of the Pier superstructure, which is now required following nearly 20 years since the Pier was last refurbished. The project would also see the Pier Pavilion extended and refurbished to accommodate new income-generating uses, new income-generating retail and food and beverage concessions on the Pier deck, better energy efficiency to reduce running costs and new stairs linking the Pier deck and beach to attract footfall. All these proposals have received full planning permission and listed building consent.

2.2 Southport Pier is the oldest pleasure pier in the country and it is important that the Council, as custodian, continues to safeguard the pier but importantly seek ways of encouraging further footfall and use of the pier to strengthen its key role as part of Sefton’s broad tourism offer.

## 3. Procurement Proposals

3.1 Whilst the outcome of the funding application will not be known until April 2017, the procurement process needs to commence before then to enable the Council to be in a position to appoint a contractor to commence works as soon as funding has been confirmed.

3.2 This is to ensure that works that could be disruptive to the operation of the Pier can be completed before the busy summer trading season, and structural repair works taking place to the pier over the beach can be completed as a single phase before high tides and inclement weather in autumn / winter 2017. This would be the most cost effective and least disruptive approach.

3.3 It is proposed to invite bids to carry out the pier project as a series of separate elements reflecting the specialist and diverse nature of the works so they are carried out by suitable qualified and experienced contractors. The project elements would include structural repairs, mechanical and electrical services, extensions to the pier pavilion and new kiosks and new staircases.

3.4 In each instance the total cost of the works will not exceed the relevant OJEU threshold and it is not therefore necessary to procure the works in accordance with EU procedural rules.

3.5 It is therefore proposed that, for each project element, bids should be invited from suitably experienced and qualified contractors using 'The Chest' local authority procurement system.

3.6 Bids would be assessed using a combined price / quality scoring system to ensure that as well as obtaining the best market price, bids also meet the Council's requirements in terms of financial standing, capacity and ability to complete the work, quality of performance and approach to managing the work. The Council can be assured of obtaining the best value for the project, including competitive prices and ability to reduce as far as possible the risk of selecting a contractor who's performance may be unsatisfactory further into the project timetable.

3.7 The successful bidders would only be appointed should the external funds be forthcoming. This will be highlighted in the Tender/Request for Quotation documentation. The Coastal Communities Fund have confirmed their acceptance of the Council's approach, as one of their key criteria for assessing bids is the ability of grant applicants to deliver projects swiftly.

This page is intentionally left blank

| | | | |
|---|---|---|---|
| **Report to:** | Cabinet | **Date of Meeting:** | 16 February 2017 |
| **Subject:** | South Sefton College – Proposed Merger with Hugh Baird College | | |
| **Report of:** | Head of Schools & Families | **Wards Affected:** | Ford and neighbouring wards where pupils reside |
| **Is this a Key Decision?** | Yes | **Is it included in the Forward Plan?** | Yes |
| **Exempt/Confidential?** | No | | |

**Purpose/Summary**

The purpose is to provide background information relating to South Sefton College and to seek approval for the commencement of the statutory consultation process to merge the school with Hugh Baird College.

**Recommendation(s)**

Cabinet is recommended to:

- note the contents of this report;
- approve the commencement of the statutory consultation process relating to the proposal to merge South Sefton College with Hugh Baird College;
- delegate responsibility to officers to start negotiations with Hugh Baird as to the level of transitional financial support required in August 2017 to support this new venture in the first year of operation;
- receive a further report about the outcome of negotiations with Hugh Baird as to the level of transitional financial support required; and a report on the outcome of the consultation ending on the 5th April 2017.

**How does the decision contribute to the Council's Corporate Objectives?**

| | Corporate Objective | Positive Impact | Neutral Impact | Negative Impact |
|---|---|---|---|---|
| 1 | Creating a Learning Community | X | | |
| 2 | Jobs and Prosperity | X | | |
| 3 | Environmental Sustainability | | X | |
| 4 | Health and Well-Being | | X | |
| 5 | Children and Young People | X | | |
| 6 | Creating Safe Communities | | X | |

| | | | | |
|---|---|---|---|---|
| 7 | Creating Inclusive Communities | X | | |
| 8 | Improving the Quality of Council Services and Strengthening Local Democracy | X | | |

**Reasons for the Recommendation:**

The Local Authority has the statutory power to discontinue a maintained school following the statutory process detailed in the report and this process needs to be followed to enable the merger to take place.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

South Sefton College is constituted as a school and therefore the responsibility of the Council in terms of its finances. The College has had financial problems virtually since it was established in 2009 and the Council have worked very hard to address these over the intervening years. However, falling student numbers and increasing costs (largely pension, NI and pay increases) have meant that the College is no longer viable as a standalone college. Financial projections indicate that the College will have a deficit of -£300K by the end of March 2017, increasing to circa -£1m by the end of March 2018.

Hugh Baird are developing a financial plan and are likely to ask the local authority to financially support the transition whilst they build-up student numbers. The Council will have the liability for the cost of closure (deficit and redundancies) and it is assumed Members would prefer to use this level of funding to keep the provision open through a merger with Hugh Baird rather than closing it permanently. Details are not known yet but it is assumed that costs can be contained within the schools closing balances contingency.

**(B) Capital Costs**

N/A

**Implications:**

The following implications of the proposals have been considered and where there are specific implications, these are set out below:

| | |
|---|---|
| **Legal:** The consultation on the proposal to merge the two colleges by discontinuing the South Sefton will be carried out in accordance with the requirements of the School Organisation (Establishment and Discontinuance of Schools) Regulation 2013. | |
| **Human Resources:** As part of the consultation process there will be meetings held with staff in the school. | |
| **Equality** | |
| 1. No Equality Implication | |
| 2. Equality Implications identified and mitigated | ✓ |

| | | |
|---|---|---|
| 3. | Equality Implication identified and risk remains | ☐ |

**Impact on Service Delivery:**

N/A

**What consultations have taken place on the proposals and when?**
The Head of Corporate Finance and ICT (FD 4475) and Head of Corporate Legal Services (LD 3758) have been consulted and any comments have been incorporated into the report.

**Are there any other options available for consideration?**
There are no alternative viable options.

**Implementation Date for the Decision**
Immediately following the expiry of the "call-in" period for the Minutes of the Cabinet meeting.

**Contact Officer:** Mike McSorley
**Tel:** 0151 934 3428
**Email:** mike.mcsorley@sefton.gov.uk

**Background Papers:**

None

1. **Background**

1.1 Government have initiated a series of Area based reviews of post 16 education and training institutions. Sefton is included in the review of the Liverpool City Region and the expectation is that area reviews come up with a series of recommendations for creating stronger, more sustainable institutions and an offer that meets the area's educational and economic needs.

1,2 The proposal for Sefton is that the four FE institutions; Hugh Baird, KGV, Southport College and South Sefton College merge to form a single Sefton College that would be stronger, more sustainable and provide an offer that meets the educational needs of young people in Sefton and the economic needs of the area. This is in keeping with the Sefton 2030 vision.

1,3 The colleges have proposed merging in two tranches: KGV and Southport College merging and Hugh Baird and South Sefton Colleges merging by September 2017, with these north/south colleges then merging to form the Sefton College in September 2018. Consultation on the merger of KGV and Southport College has already started.

1,4 The merger of Hugh Baird and South Sefton presents a particular challenge because one is set up as a general FE College and the other as a school and current legislation does not provide a straightforward mechanism for a merger of this type. The LCR Area Review Team, Hugh Baird and Sefton Council have all been asking civil servants how this can be achieved since May and despite positive noises they have not been able to offer suitable advice. New guidance on the implementation of Area Reviews was published in October and does not provide a way of merging differently constituted colleges except as described below.

1.5 Legally the only way of merging the institutions is for South Sefton to be discontinued (following the statutory school closure process which the local authority have to determine) and then for Hugh Baird to expand its post 16 provision by providing an A-level offer from the site.

1.6 The Governing Body have written to the Council requesting the local authority begin the consultation on the proposed merger as described in the report.

2. **Proposed Merger**

2.1 South Sefton College opened in 2009 but was set up as a maintained 16 to 19 school and later became a foundation trust school; the Council are, therefore, the decision maker in respect of discontinuance (closure) in accordance with the School Organisation (Establishment and Discontinuance of Schools)(England) Regulations 2013. The process which needs to be followed and timescales are set out below:

| | | |
|---|---|---|
| **Stage 1** | **Consultation**<br>**27th February 2017 to 5th April 2017** | This is the start of the process when the Local Authority provides information about what is being proposed and gathers the views of |

| | | |
|---|---|---|
| | | interested parties to help them develop the proposals. This period usually lasts for a minimum of six weeks. |
| **Stage 2** | **Publication**<br>**19th April 2017** | A legal notice is published in the local paper (usually the Champion) and on the Council website which sets out brief details of the proposal for discontinuance to support the merger and where more information can be found. It also gives details of where objections and comments can be sent and the closing date for these. It marks the start of the representation period or formal consultation. |
| **Stage 3** | **Representation**<br>**19th April 2017 to 17th May 2017** | This is a four week period from the date the notice is published to allow interested parties the final opportunity to send comments or objections to be taken into consideration by the decision maker. It is classed as the formal part of the consultation process. |
| **Stage 4** | **Decision**<br>**Cabinet to make final decision – 22nd June 2017** | All the comments and objections gathered during the representation period are provided to the decision maker to enable them to make the final decision to close or not. |

2.2 The consultation proposal is to discontinue South Sefton College from August 2017 and then for Hugh Baird to then take over the South Sefton site and expand their provision to provide A-levels from September 2017. A draft of the consultation information on the proposal is attached for information.

2.3 The land and buildings associated with South Sefton College are currently owned by the Trust, however, upon discontinuance these will revert to the Council. In order for Hugh Baird to provide A-levels from the South Sefton site the Council, subject to any necessary consents being given by the Secretary of State under Section 123(2) of the Local Government Act 1972 and paragraph 4 of Schedule 1 to the Academies Act 2010, will need to agree to lease them to Hugh Baird.

2.4 All parties are committed to the merger as part of the Area Review, however, whilst the 'merger' is the preferred option, given the financial position of South Sefton College set out in the report which shows that the College is not viable as a standalone setting if the merger does not take place it is recommended that the discontinuance is still progressed.

2.5 Under section 16(3) of the Education and Inspections Act 2006 a proposer of a school discontinuance must have regard to any guidance issued by the Secretary of State. The Secretary of State considers that those bodies listed below should be consulted in the case of the proposed discontinuance of schools:

- LA (as appropriate);
- parents of pupils;
- where the LA is a county council the local district or parish council where the school that is the subject to the proposal is situated;
- in the case of a special school – any LA which maintains a statement of special educational needs in respect of a registered pupil at the school.
- the Governing Body (as appropriate);
- pupils at the school;
- the trustees of the school (if any);
- teachers and other staff at the school;
- any LA likely to be affected by the proposal, in particular neighbouring authorities
- where there may be significant cross-border movement of pupils;
- the governing bodies, teachers and other staff of any other school that may be affected;
- parents of any pupils at other schools who may be affected by the proposal including where appropriate families of pupils at feeder primary schools;
- any trade unions who represent staff at the school; and representatives of any trade union of staff at other schools who may be affected by the proposal;

**3. <u>Financial Implications</u>**

3.1 South Sefton College is constituted as a school and, therefore, the responsibility of the Council in terms of its finances. The College has had financial problems virtually since it was established in 2009 and the College and the Council have worked very hard to address these over the intervening years. However, falling student numbers, reductions in funding levels and increasing costs (largely pension, NI and pay increases) have meant that the College is no longer viable as a standalone college. The College was original built to support approximately 640 students but currently only has 378 students.

3.2 The current financial projection indicates that the College will have exhausted all of its revenue balances and will have a deficit of -£300,000 by 31st March 2017. The financial projection for 2017/18 shows that the College will be operating with a running deficit of approximately -£65,300 per month and the projected outturn position for 2017/18 is expected to be a deficit of approximately -£1.1m. This is based on the current operating commitments required to support the existing student offer and the amount of funding the College receives from the Education Funding Agency (EFA).

3.3 As stated earlier the College has taken significant measures over the last few years to reduce costs to help offset losses in funding. At this moment in time there is little scope for the College to reduce running costs any further other than reducing the number of subjects and qualifications it offers to students, which would impact further on its ability to bring in new students in future years.

3.4 If the Council decided to close the College, as it is no longer viable, then any closure costs and outstanding financial liabilities would transfer to the Council. If a August 2017 closure was proposed then the projected deficit position would be in excess of -£625,000 along with any closure costs: including severance costs, contractual liabilities and any transitional support that may be required to ensure existing students could complete their qualifications in other schools or Colleges within Sefton. If a the Council decided to keep the College open until August 2018 then the financial liabilities would be significantly higher.

3.5 As part of the merger proposal Hugh Baird are developing a financial plan and are likely to ask the local authority to financially support the transition whilst they build-up student numbers. The Council will have the liability for the cost of closure (deficit and redundancies) and it is assumed Members would prefer to use this level of funding to keep the provision open through a merger with Hugh Baird rather than closing it permanently. Exact details are not known yet as to what financial support Hugh Baird will request although the Council will be liable for the College deficit at the point of conversion (-£560k for 31st July 2017 conversion). Any transitional support for Hugh Baird would increase this cost but it is assumed that costs would not be greater than the cost of closure and should be contained within the schools closing balances contingency.

3.6 Hugh Baird has indicated that they will have completed their due diligence during the consultation process. The recommendations also seek approval for officers to enter into negotiations with Hugh Baird as to the level of transitional financial support required in August 2017 to support this new venture in the first year of operation. Information on this will be available for consideration by Cabinet before they determine the proposal.

Annex A –Draft consultation document

# A Vision for the future

**Outstanding Further Education in South Sefton through the merger of Hugh Baird College and South Sefton College**

The Governing Bodies of Hugh Baird College and South Sefton College are proposing to merge and form an exciting new partnership.

By working together we can provide a broad range of high quality post 16 education provision for South Sefton and surrounding areas.

We would like your views.

**INTRODUCTION**

This document sets out the background to the proposed merger of Hugh Baird College and South Sefton College. It describes the rationale for the merger and the benefits and opportunities for learners, employers, and the wider community.

The decision of the two Colleges to propose a merger is based on a strategy to offer the very best post 16 education for the South Sefton area.

Both Hugh Baird College and South Sefton College have a distinctive offer. The proposed merger keeps the two existing campuses and builds on the strengths of the two institutions to ensure the best quality provision.

The merger will ensure a broad curriculum offer for school-leavers with high quality 'A' level and vocational provision for South Sefton. The merger will ensure that all school leavers in South Sefton and the surrounding area can be guaranteed a place in a specialist centre on a course that is right for them and their career ambitions.

We see this as a very positive move which will create a stronger, financially resilient modern College and allow for the development and investment in both existing sites.

The Colleges are committed to offering outstanding post 16 education and have been working together to realise that vision.

**BACKGROUND**

The rationale behind the national programme of Government Area Reviews is to:

- Improve the nation's productivity.
- Expand the Apprenticeship programme.
- Provide clear, high quality professional and technical routes to employment, alongside robust academic routes, which allow individuals to progress to high level skills valued by employers.

- Be more responsive to local employer needs and economic priorities, for instance through local commissioning of adult provision, which will help give the sector the agility to meet changing skills requirements in the years ahead.

These objectives can only be delivered by strong institutions, which have the high status and specialism required to deliver credible routes to employment, either directly or via further study.

Mergers are now being widely encouraged within the Further Education sector, therefore, the proposal contained in this document is entirely consistent with the Government's agenda. This proposal has been produced following a significant amount of proactive work undertaken by each College prior to the Government's official area review. Two years ago an independent report was commissioned by the Colleges to identify how they could further co-operate to best serve the local area. This report informed the Liverpool City Region Area Review.

Uniting Hugh Baird College and South Sefton College through a merger is the best way to secure the Colleges' distinctive offers. It will also create a secure and sustainable financial base for the vital continued investment in the modern facilities and accommodation that staff, students and employers expect.

**THE PROPOSAL**

We believe the time is right for the two colleges to merge to provide a strong local, post 16 education offer.

There has been a decline in the numbers of 16-18 students studying at the two colleges, due to a continuing demographic decline and the increase in numbers of advanced level students leaving the area to study elsewhere. The merged college intends to reverse this trend and grow the numbers of 16-18 students through providing a high quality well-resourced local sixth form offer, enabling students to stay closer to home and achieve their potential and ambition.

Because South Sefton College is constituted as a 'school' rather than an FE College the statutory process to be followed to make the merger happen is to 'discontinue' South Sefton College as a school.

If the merger did not happen then South Sefton College is not viable as a standalone institution and, since it could not be subsidised by the Local Authority, would be closed.

Following the merger, South Sefton College will continue to operate as a provider of Advanced level programmes, with the opportunity to expand this provision.

**The Colleges Involved:**

Hugh Baird College

Hugh Baird College is a general further education (GFE) college situated in Bootle in the south of the borough of Sefton.

The College is one of the largest providers of education and training in the area, delivering more than 400 courses to close to 5,000 students. Hugh Baird College offers courses that include entry level to level 3 vocational qualifications, apprenticeships, foundation degrees and full honours degrees. The College is also one of a small number in the UK to have a 14-16 College which enables those students with clear career goals to leave school and start working towards these on a full time basis from the age of 14.

In recent years, the College has worked closely with the Liverpool City Region Local Enterprise Partnership (LEP) and employers in order to develop a demand led curriculum offer that ensures students have the best opportunity to progress into employment or further study.

In its most recent Ofsted inspection (February 2015), the College was graded overall as 'Good'.

South Sefton College

South Sefton College was established in 2009 in partnership with Sefton Local Authority and seven local secondary schools following a strategic area review by Ofsted in order to secure more opportunities for high quality academic level 3 provision in the area.

South Sefton College is a fully subscribed centre of educational excellence offering a wide range of advanced level courses with a broad variety of enrichment opportunities.

The College offers a strong and supportive pastoral ethos and the highest quality additional learning support to ensure all of our students fulfil their potential irrespective of ability or circumstances.

In its most recent Ofsted inspection (November 2016), the College was graded overall as 'Requires Improvement'.

**The Benefits a merger will bring**

We will offer an attractive and competitive post 16 offer for South Sefton and the surrounding area.

We will develop and invest in both existing College sites as distinctive centres of excellence.

We will offer students clear progression opportunities.

We want to be recognised locally as the first choice for higher level academic, vocational and professional courses.

We want employers to see our College as the natural partner for growth and success through the supply of highly skilled people.

We want to achieve an Ofsted Outstanding rating across all our provision.

We want our community to be proud of its College.

**The Rationale**

The merged college would be better able to:

1. Offer an extensive range of professional, vocational and A-level courses across the two campuses.

2. Allow for the development and investment in first class facilities and centres of excellence in both existing College sites.

3. Build on the strengths and the distinctive ethos of the two institutions with Hugh Baird College leading in professional, technical and vocational courses and South Sefton College specialising in A level subjects.

4. Work closely with employers to develop the employability of students, grow apprenticeships and better meet their recruitment and training needs.

5. Increase the numbers of 16-18 students across both colleges by strengthening the advanced level offer.

6. Continue to expand locally delivered higher education and degree opportunities through the development of the University Centre.

7. Support the continued quality improvements towards achieving an outstanding Ofsted Inspection.

8. Create a financially stable and sustainable college.

**We see this as a crucial first step towards arriving at a cohesive Sefton wide structure for further and higher education.**

## Frequently asked questions

**How will the merger effect current students?**

All current students will be able to complete their course of study. The merger is designed to grow provision across both sites.

**Would students be expected to travel between the two main campuses?**

No, it is intended students would be based at one of the campuses for their main programme of study.

There may be some opportunities for students to join together to participate in events, sporting or other enrichment activities.

**What will happen to the College sites after the merger?**

The new College will maintain and develop the two existing College campuses. The combined College will continue to invest in improving the facilities and accommodation across both campuses.

**What would the new college be called?**

There is no plan to introduce a new college name. We believe the Hugh Baird College and South Sefton College names represent their distinctive provision and this will be retained.

**When is the merger expected to take place?**

It is planned that the merger will be completed before the end of the current academic year and the new College will therefore be in place by August 2017.

**How can I express my views?**

You can complete the questionnaire overleaf and return it to us.

**STATUTORY PROCESS**

In order to facilitate the merger proposal the local authority (as the decision maker under the relevant legislation) has to follow the statutory process set out below:

| | | |
|---|---|---|
| **Stage 1** | **Consultation**<br>**27th February 2017 to 5th April 2017** | This is the start of the process when the Local Authority (decision maker) provides information about what is being proposed and gathers the views of interested parties to help them develop the proposals. This period usually lasts for a minimum of six weeks. |
| **Stage 2** | **Publication**<br><br>**19th April 2017** | A legal notice is published in the local paper (usually the Champion) and on the Council website which sets out brief details of the proposal for discontinuance to support the merger and where more information can be found. It also gives details of where objections and comments can be sent and the closing date for these. It marks the start of the representation period or |

| | | |
|---|---|---|
| | | formal consultation. |
| **Stage 3** | **Representation**<br><br>**19th April 2017 to 17th May 2017** | This is a four week period from the date the notice is published to allow interested parties the final opportunity to send comments or objections to be taken into consideration by the decision maker. It is classed as the formal part of the consultation process. |
| **Stage 4** | **Decision**<br><br>**Cabinet to make final decision – 22nd June 2017** | All the comments and objections gathered during the representation period are provided to the decision maker to enable them to make the final decision to close or not. |

**CONSULTATION - The formal consultation will be held between 27th February and 5th April 2017.**

Please tell us what you think about the proposal.

**Please complete using the online survey at www.surveymonkey.co.uk/r/ or you can return the form with your comments to Mr Frank McCann, Principal, South Sefton Sixth Form College, Sterrix Lane, Litherland, Liverpool, L30 2DB or Mrs Anne-Marie Nixon, Director of Governance at Hugh Baird**

**College, Balliol Road, Bootle, Merseyside, L20 7EW, or to the School Organisation Team, Schools Regulatory Services, Town Hall, Oriel Road, Bootle, L20 7AE.**

**Thank you for taking the time to read this and respond.**

**Appendix 1**

| | |
|---|---|
| Hugh Baird and South Sefton Merger Proposal Consultation | HB-SEFT MERGER 8PP A4.pdf |

This page is intentionally left blank

| | | | |
|---|---|---|---|
| **Report to:** | Cabinet | **Date of Meeting:** | 16 February 2017 |
| **Subject:** | Sport England Grant | **Wards Affected:** | (All Wards); |
| **Report of:** | Director of Public Health | | |
| **Is this a Key Decision?** | Yes | **Is it included in the Forward Plan?** | No – Rule 27 form submitted and agreed |
| **Exempt/Confidential** | No | | |

**Purpose/Summary**

To provide Cabinet with information on a recent funding application made to Sport England designed to improve swimming facilities and programmes in Sefton and to seek approval to accept a grant, if awarded.

**Recommendation(s)**

It is recommended that Cabinet agrees:-

1) To accept the grant if awarded, subject to satisfactory grant conditions;
2) To commence a procurement exercise without commitment pending the grant award;
3) For the project to be included in the 2017/18 capital programme that will be considered by Council on 2 March 2017 subject to the grant being awarded; and
4) It be noted that the proposal was a Key Decision but had not been included in the Council's Forward Plan of Key Decisions. Consequently, the Leader of the Council and the Chair of the Overview and Scrutiny Committee (Adult Social Care and Health) had been consulted under Rule 27 of the Access to Information Procedure Rules of the Constitution, to the decision being made by the Cabinet as a matter of urgency on the basis that it was impracticable to defer the decision until the commencement of the next Forward Plan because of timescales associated with the initial bid submission, expected project delivery and procurement process.

**How does the decision contribute to the Council’s Corporate Objectives?**

| Corporate Objective | | Positive Impact | Neutral Impact | Negative Impact |
|---|---|---|---|---|
| 1 | Creating a Learning Community | | √ | |
| 2 | Jobs and Prosperity | √ | | |
| 3 | Environmental Sustainability | | √ | |
| 4 | Health and Well-Being | √ | | |
| 5 | Children and Young People | √ | | |

| | | | | |
|---|---|---|---|---|
| 6 | Creating Safe Communities | √ | | |
| 7 | Creating Inclusive Communities | √ | | |
| 8 | Improving the Quality of Council Services and Strengthening Local Democracy | √ | | |

**Reasons for the Recommendation:**

In March 2016 the Director of Health & Social Care and Cabinet Member (Health & Wellbeing) approved Sefton's involvement in a national swimming pilot, which included the submission of a funding bid to Sport England.

The total requested from Sport England is £531,582. Confirmation is expected by the end of February 2017. If agreed the funding will include capital resources to enable the renovation of two swimming pool changing facilities which will be fully DDA compliant and as such permission to proceed is required urgently to comply with the funding timescales. It is not possible to defer this decision to the Cabinet meeting in March, hence the request for approval in advance of the award being made.

**Alternative Options Considered and Rejected:**

The changing facilities at Dunes Splash World and Bootle Leisure Centre are outdated, in poor condition and in need of refurbishment. If Members elect not to accept the grant, alternative funding options will need to be identified.

**What will it cost and how will it be financed?**

SMBC have requested the following from Sport England:-

**(A) Revenue Costs**

£182,200 to support project development.

**(B) Capital Costs**

£349,382 to enable the renovation of the changing facilities at Bootle Leisure Centre and Dunes Splashworld.

**Implications:**

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

| | |
|---|---|
| **Financial**<br>All costs associated with the developments proposed will be met by the grant. There are no financial implications to the council. In the event that the grant is not awarded, the procurement process will be stopped. There will therefore be no financial implications on the Councils current budget | |
| **Legal** | None |

| | |
|---|---|
| **Human Resources** None | |
| **Equality**<br>1. No Equality Implication<br>2. Equality Implications identified and mitigated<br>3. Equality Implication identified and risk remains | <br>[ ]<br>[x]<br>[ ] |

**Impact of the Proposals on Service Delivery:**

If approved, the grant will improve both Sefton's leisure facilities and the services provided within them utilising external resources. The project will also contribute significantly to the Councils Health & Wellbeing priorities.

**What consultations have taken place on the proposals and when?**

A public consultation exercise was approved and supported by the Consultation and Engagement Panel in July 2016. Over 3000 responses were received which resulted in the development of the planned initiatives.

The Head of Corporate Resources has been consulted and has no comments on the report (FD 4474/17)

Head Regulation and Compliance has been consulted and any comments have been incorporated into the report (LD 3757/17)

**Implementation Date for the Decision**

Following the expiry of the "call-in" period for the minutes of the Cabinet Meeting

**Contact Officer:** Simon Burnett
**Tel:** 0151 934 2356
**Email:** Simon.Burnett@sefton.gov.uk

**Background Papers:**

None

**1. Introduction/Background**

1.1 Sefton MBC is one of 12 Local Authorities to have been selected to be part of a national Sport England swimming pilot designed to reverse the current decline in public swimming.

1.2 Sefton were approached by Sport England in February 2016 and were asked to submit a funding application to provide both revenue and capital funding to improve the existing swimming facilities and programmes in order to increase participation and income.

**2. Application Process & Timescales**

2.1 Following the consultation exercise a full insight report was submitted to Sport England in September 2016. Insight gathered was subsequently used to formulate an 'Improvement Package' (outlined below) which was detailed in a presentation delivered to the Sport England national team on 8th December.

2.3 The Council will be informed of the outcome of the bid and amount of grant awarded by the end of February 2017.

2.3 Due to timescales associated with the report submission and required project delivery, approval is sought to progress with the procurement process pending the final grant award. In the event that the funding is not awarded, the procurement process will stop with no financial implications for the Council. Cabinet will be informed of the final grant decision when known.

**3. Improvement Package and Implementation**

3.1 Our vision is to sustainably increase swimming participation by ensuring it is financially viable and socially relevant.

3.2 It was imperative that the 'Improvement Package' reflected the insight gathered and as such, if funded, a number of key initiatives will be implemented. These include;

- New and increased branding and marketing to ensure borough wide visibility and relevance
- Workforce Development – including the appointment of 'Aquavators'
- Refurbished changing rooms at Bootle Leisure Centre and Dunes Splashworld
- The development of new tailored sessions that meet the needs of different groups (specifically focussing on health, fitness and family activities) and the production of revised timetables

3.3 The implementation of initiatives will have a direct impact on the Councils Health & Wellbeing objectives. The swim pilot will;

- Ensure children have a positive start in life

- Support people early to prevent and treat avoidable illnesses and reduce inequalities in health
- Support older people and those with long term conditions and disabilities to remain independent and in their own homes
- Promote positive mental health & wellbeing
- Seek to address the wider social , environmental and economic issues that contribute to poor health and wellbeing
- Build capacity and resilience to empower and strengthen communities

3.4 In accordance with the terms of the potential grant allocation project implementation will take place over a 12 month period starting February/March 2017, hence the need to commence the procurement process at the earliest opportunity.

**4.0 Procurement Process**

4.1 Approval is sought to undertake a procurement exercise, without commitment, whilst waiting for the outcome of the bid.

4.2 Due to the tight timescales expected by Sport England for project implementation, it is necessary for the procurement process to commence as soon as possible to enable the Council to be in a position to appoint a contractor to commence works as soon as funding has been confirmed.

4.3 Draft tender documents have been prepared and approved by SMBC procurement and Sport Englands Facilities team.

**5. Financial implications**

5.1 Sport England has allocated £3.0m nationally and invited 12 Local Authorities to bid. Due to being based on local consultation there were no parameters in place for minimum/maximum grants available. Sefton's grant application was £531,582 based upon need.

5.2 £80,728 match funding was included in the application which included "in-kind" project management by Officers from within the Sport and Recreation and Corporate Communication Teams.

5.3 In keeping with normal processes, if successful a number of conditions will be attached to the grant which will be considered by the Head of Corporate Resources before the grant is accepted.

This page is intentionally left blank