

Report to:	Cabinet	Date of Meeting:	2 December 2021
Subject:	Financial Management 2021/22 to 2024/25 and Framework for Change 2020 - Revenue and Capital Budget Update 2021/22 including the Financial Impact of COVID-19 on the 2021/22 Budget - December Update		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards);
Portfolio:	Leader of the Council		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

To inform **Cabinet** of:

1. The current financial implications of COVID-19 on the 2021/22 Budget.
2. The current position relating to the 2021/22 revenue budget.
3. The current forecast on Council Tax and Business Rates collection for 2021/22.
4. The monitoring position of the Council's capital programme to the end of October 2021:
 - The forecast expenditure to year end.
 - Variations against the approved budgets and an explanation of those variations for consideration by Members.
 - Updates to spending profiles and proposed amendments to capital budgets necessary to ensure the efficient delivery of capital projects are also presented for approval.

Recommendation(s):

Cabinet is recommended to:

Revenue Budget

- 1) Note the current financial implications of COVID-19 on the 2021/22 Budget together with the key issues that will influence the final position.
- 2) Note the current position relating to the 2021/22 revenue budget.
- 3) Recognise the financial risks associated with the delivery of the 2021/22 revenue budget and acknowledge that the forecast outturn position will continue to be reviewed to ensure a balanced forecast outturn position and financial sustainability can be achieved.

Framework for Change 2020 Update- Sandway Homes Limited

- 4) Further to the Cabinet report of October 2021 and the receipt of an exit strategy received from Sandway Homes Limited, the revisions to the Phase 1 Business Plan including a revised peak debt level of £8.3m be approved.

Capital Programme

- 5) Note the spending profiles across financial years for the approved capital programme (paragraph 7.1).
- 6) Note the latest capital expenditure position as at 31 October 2021 of £17.340m (paragraph 7.5); the latest full year forecast is £50.675m (paragraph 7.7).
- 7) Note explanations of variances to project budgets (paragraph 7.8).
- 8) Approve the supplementary capital estimates (paragraph 7.10).
- 9) Note that capital resources will be managed by the Executive Director Corporate Resources and Customer Services to ensure the capital programme remains fully funded and that capital funding arrangements secure the maximum financial benefit to the Council (paragraph 7.11).

Reasons for the Recommendation(s):

To ensure Cabinet are informed of the current position in relation to the 2021/22 revenue budget, including COVID19 pressures and additional funding being made available to the Council.

To provide an updated forecast of the outturn position with regard to the collection of Council Tax and Business Rates.

To keep members informed of the progress of the Capital Programme against the profiled budget for 2021/22 and agreed allocations for future years.

To progress any changes that are required in order to maintain a relevant and accurate budget profile necessary for effective monitoring of the Capital Programme.

To approve any updates to funding resources so that they can be applied to capital schemes in the delivery of the Council's overall capital strategy.

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

N/A

What will it cost and how will it be financed?

(A) Revenue Costs

The report indicates that for 2021/22 an underspend position of £0.416m is currently forecast but that mitigating actions may be required if the position subsequently moves to a deficit position.

(B) Capital Costs

The Council's capital budget in 2021/22 is £50.703m. As at the end of October 2021 expenditure of £17.340m has been incurred and a full year outturn of £50.675m is currently forecast.

Implications of the Proposals:

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

<p>Resource Implications (Financial, IT, Staffing and Assets): It is currently expected that an underspend position of £0.416m will be achieved for 2021/22. However, it should be noted that significant pressure and risk remains in four key business areas, namely Children's Social Care, Children with Disabilities, Education Excellence and Locality Services. If these budgets experience further demand pressure during the remainder of the year corresponding savings may need to be identified. If this cannot take place there may be a call on the Council's General Balances.</p>								
<p>Legal Implications: None</p>								
<p>Equality Implications: There are no equality implications.</p>								
<p>Climate Emergency Implications:</p> <p>The recommendations within this report will</p> <table border="1"><tr><td>Have a positive impact</td><td>N</td></tr><tr><td>Have a neutral impact</td><td>Y</td></tr><tr><td>Have a negative impact</td><td>N</td></tr><tr><td>The Author has undertaken the Climate Emergency training for report authors</td><td>N</td></tr></table> <p>The allocations of capital funding outlined in section 7 may be spent on projects that will have a high climate change impact as they could relate to new build, rebuild, refurbishment, retrofit and demolition proposals. Environmental consideration will be taken into account when specific projects are designed and tendered – which will help to mitigate negative impacts.</p>	Have a positive impact	N	Have a neutral impact	Y	Have a negative impact	N	The Author has undertaken the Climate Emergency training for report authors	N
Have a positive impact	N							
Have a neutral impact	Y							
Have a negative impact	N							
The Author has undertaken the Climate Emergency training for report authors	N							

Contribution to the Council's Core Purpose:

Effective Financial Management and the development and delivery of sustainable annual budgets support each theme of the Councils Core Purpose.

<p><u>Protect the most vulnerable:</u> See comment above</p>
<p><u>Facilitate confident and resilient communities:</u> See comment above</p>
<p><u>Commission, broker and provide core services:</u></p>

See comment above
<u>Place – leadership and influencer:</u> See comment above
<u>Drivers of change and reform:</u> See comment above
<u>Facilitate sustainable economic prosperity:</u> See comment above
<u>Greater income for social investment:</u> See comment above
<u>Cleaner Greener:</u> See comment above

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources & Customer Services is the author of the report (FD 6619/21)

The Chief Legal and Democratic Officer has been consulted and has no comments on the report (LD 4820/21).

(B) External Consultations

N/A

Implementation Date for the Decision

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

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Appendices:

The following appendix is attached to this report:

APPENDIX A – Capital Programme 2021/22 to 2023/24

Background Papers:

There are no background papers available for inspection.

1. Introduction

- 1.1 In March 2021, Council approved the budget for 2021/22. This report provides an update on the forecast revenue outturn position for 2021/22, including the significant impact of COVID-19 on the Council's 2021/22 budget, and reflects the position at the end of the first quarter of the financial year.
- 1.2 The report also outlines the current position regarding key income streams for the Authority, namely Council Tax and Business Rates. Variations against expected receipts in these two areas will also affect the Council's financial position in future years.
- 1.3 The capital section of the report informs Members of the latest estimate of capital expenditure for 2021/22 and forecast expenditure for 2022/23 and 2023/24. The capital budget to date is presented in paragraph 7.1. Paragraphs 7.5 to 7.8 review progress of the capital programme. Finally, paragraph 7.11 confirms that there are adequate levels of resources available to finance the capital programme.

2. Impact of COVID 19 on 2021/22 Budget

- 2.1 As part of the Council Budget Report presented to the Budget Council meeting in March, Members received details of the full range of financial issues that were being faced by the Council in 2021/22 arising from the pandemic, and how this cost would be funded. A summary is shown below:

	2021/22
	£'m
Sales, Fees and Charges Income	
Estimated Net Losses	1,500
Use of 2021/22 Emergency Funding	-1,500
	0.000
Collection Fund deficit in 2020/21 arising from COVID-19	
Net losses after government compensation scheme	5,812
Collection Fund Surplus from 2019/20	-1,072
	4,740
Collection Fund deficit re. 2021/22	
Reduction in Council Tax Base	3,564
Council Tax Support Grant	-3,471
Business Rates forecast losses	3,000
	3,093
Temporary Mitigating Measures to Offset Council Tax / Business Rates Losses	
Use of 2020/21 Emergency Funding	-4,000
Framework for Change 2020 – Council of 2023 Savings	-0,890
Forecast Underspend in 2020/21	-1,000
Vacancy Management	-0,500
School Closure Reserve	-0,500
Use of 2021/22 Emergency Funding	-0,943

	-7.833
Net Impact on 2021/22 Budget	0.000

2.2 An update on the pressures is provided below:

Sales, Fees and Charges Income

2.3 There was a significant impact on income from sales, fees and charges for a range of services during 2020/21. Whilst some income streams have fully recovered since lockdown finished, others are expected to remain impacted whilst measures are still in place for social distancing, etc.

2.4 The government has announced that the compensation scheme in place in 2020/21 to provide support for a proportion of losses will be extended until the end of June 2021. Therefore, an element of losses will be funded through the compensation scheme. The Council is currently finalising the claim for April to June but expects to claim £0.950m to partially compensate for losses in the period of £1.450m.

2.5 It is currently forecast that the loss of income in the year may be in the region of £2.900m. After the claim for compensation in the first quarter of the year, the net loss is forecast to be **£2.145m** during 2021/22. This is an increase on the £1.5m assumed in the Budget Report. This forecast will be reviewed during the year as there is more experience of the impact on reopened facilities. Any balance of losses not funded by the scheme will need to be covered from the emergency funding or the Contain Outbreak Management Fund received by the Council in 2021/22. It is currently assumed that income levels may return to normal from 2022/23, however, this will continue to be assessed based on the experience once all restrictions are eased. Any ongoing implications will need to be built into the three-year budget plan and potentially funded on a temporary basis if the impact isn't considered permanent.

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

2.6 The Council, in line with all other local authorities, is experiencing significant reductions in income from both Council Tax and Business Rates. This relates to increases in households eligible to claim under the Council Tax Reduction Scheme and some increases in Business Rates appeals as well as reductions in collection rates.

2.7 The government announced financial support would be provided to offset 75% of irrecoverable losses. However, Council Tax losses relating to non-collection aren't eligible for compensation under the scheme, neither are adjustments relating to previous years. The Budget Report estimated that net losses not covered by the scheme would therefore be up to £5.812m and would need to be funded. The final deficit position for both Council Tax and Business Rates, along with the amount of financial support that has been claimed from the government, have now been finalised and has resulted in a net loss of **£8.567m**. However, it is anticipated that some of these losses will be reversed in 2021/22 so the net impact will be within the £5.812m previously estimated.

Council Tax Base

- 2.8 The Council Tax Base is set by Council in January each year. It reflects changes in the number of properties and the value of exemptions and discounts. In recent years the Council Tax Base has increased steadily due to housing growth. However, due to the impact of COVID-19 on the number of CTRS claimants, the reduced collection rate and the slowdown in housing growth, there has been a significant reduction in the Base for 2021/22. This reduced the Council Tax Requirement by **£3.564m**.
- 2.9 The government has announced additional funding to support the loss of income due to increased numbers of CTRS claimants. Sefton's allocation is **£3.471m** and will be used to offset the majority of reduced funding due to the decrease in the Council Tax Base.
- 2.10 Currently, the number of CTRS claimants hasn't increased as forecast (this is mainly due to the government's "furlough" scheme being extended which may have delayed any increase) and collection rates are slightly ahead of expectations. If these factors continue then a surplus may be generated, although due to regulations this would only be credited to the Council in 2022/23. Section 4 highlights that currently a surplus of £1.575m is forecast (excluding the surplus from 2020/2021).

Business Rates

- 2.11 Business Rates collection rates reduced in 2020/21 due to COVID-19 and are expected to remain lower than normal in 2021/22. In addition, at the time of the Budget Report there were significant numbers of appeals in 2020/21 due to restrictions being in place. It was estimated that based on the 2020/21 position that £3.000m of the Council's income will be at risk as businesses no longer exist or cannot afford to pay business rates.
- 2.12 However, central government have announced that appeals relating to the implications of COVID19 won't be allowed under amended regulations. Therefore, it is forecast that the income now at risk is only **£1.600m**.

Summary

- 2.13 It should be noted that the figures included above will be subject to change and will continue to be reviewed on a monthly basis.

3. Revenue Budget 2021/22 – Forecast Outturn Position as at the end of October 2021

- 3.1 Members are provided with updates of the Council's forecast financial revenue position each month during the financial year from July.
- 3.2 In 2020/21, as in previous years, significant pressures were identified in several service areas at an early stage of the year, particularly Children's Social Care, Communities (Children with Disabilities) Education Excellence (Home to School Transport) and Operational In-House Services. These pressures, and the unprecedented financial challenges faced by the Council in relation to COVID-19, meant the Council had to implement a remedial action plan was adopted to ensure

a balanced budget position would be achieved. In addition, a number of financial principles that had been implemented in previous years were also adopted.

- 3.3 In response to these pressures, Budget Council approved that additional resources be added to the 2021/22 budget for these services, with the amounts shown below:

<u>Service</u>	<u>Budget Pressure</u>
	£m
Children's Social Care – Placements & Packages	7.280
Communities – Children with Disabilities / PSR2	1.050
Education Excellence – Home to School Transport	1.100
Operational In-House Services – Security Force	0.350
	9.780

- 3.4 However, as these are demand led services this will need to be carefully monitored during the year, with the biggest risk being the cost of Children's Social Care – Placements and Packages. Any pressures arising will need to be managed as it is still vital that the Council is able to achieve a balanced forecast outturn position for its normal activities, ignoring the impact of COVID-19 pressures. Therefore, the approval of mitigating actions, and the adoption of financial principles used in previous years, may need to be implemented at some point during the remainder of the year.

- 3.5 As at the end of October, the forecast outturn shows a net underspend of **£0.416m**. The table below highlights the variations:

	Budget	Forecast Outturn	Variance	Variance to September Position
	£m	£m	£m	£m
<u>Services</u>				
Strategic Management	4.002	4.030	0.028	0.006
Adult Social Care	97.951	97.166	-0.785	-0.213
Children's Social Care	47.482	48.575	1.093	0.302
Communities	17.420	16.990	-0.430	0.143
Corporate Resources	4.423	4.380	-0.043	0.011
Economic Growth & Housing	6.463	6.349	-0.114	-0.138
Education Excellence	10.548	10.413	-0.135	-0.109
Health & Wellbeing	18.715	18.590	-0.125	0.004
Highways & Public Protection	11.152	11.157	0.005	0.012
Locality Services	13.741	13.711	-0.030	0.143
Total Service Net Expenditure	231.897	231.361	-0.536	0.161
Budget Pressure Fund	1.000	1.000	0.000	0.000

Council Wide Budgets	-13.842	-13.722	0.120	0.000
Levies	34.568	34.568	0.000	0.000
General Government Grants	(62.858)	(62.858)	0.000	0.000
Total Net Expenditure	190.765	190.349		
Forecast Year-End Deficit			-0.416	0.161

3.6 The key areas relating to the outturn position are as follows:

- **Adult Social Care** – The current forecast assumes that the Adult Social Care budget will achieve a small surplus during 2021/22. However, there are a number of significant assumptions and uncertainties as a result of COVID-19 that could impact on this position before the year-end.

As part of the Demand Management Programme, savings of £3.300m were identified and delivered during 2020/21. Work on the Programme is continuing, and further savings are being identified that will have a part-year impact in 2021/22 and will therefore impact on the forecast outturn position. The current forecast of these savings in 2021/22 is £1.416m. Due to the significant assumptions and uncertainties within the forecast outturn position, only those savings achieved to date have been included in the forecast outturn position at this time.

- **Children's Social Care** – The current forecast shows a potential overspend of £2.907m. However, it is estimated that £1.814m of the overspend is attributable to the impact of COVID-19. Therefore, as reported to Cabinet in July, these temporary costs will be met by the Contain Outbreak Management Fund. The net overspend is therefore £1.093m. This is as a result of some recent high cost cases and highlights the pressures that the budget can experience.

However, as has been regularly reported over the last three years, the cost of Placements and Packages is the largest risk to the Council's budget position. The Council is currently working on developing a range of options to address the inherent demand and costs of Looked After Children whilst supporting the most vulnerable residents, but this budget remains under pressure and purely from a financial point of view this is likely to continue during this year and into the next financial year.

At the Cabinet meeting in September a report highlighted the need for additional temporary and permanent staffing resources within the service. The report forecasted that additional costs of potentially £2.008m could be incurred in 2021/22, with £1.500m of these costs being funded from the reserve approved at July's Cabinet meeting. As these posts are fully funded from one-off resources, they aren't included in the forecast outturn position.

4. Council Tax Income – Update

- 4.1 Council Tax income is shared between the billing authority (Sefton Council) and the three major precepting authorities (the Fire and Rescue Authority, the Police and Crime Commissioner and the Combined Authority – Mayoral Precept) pro-rata to their demand on the Collection Fund. The Council's Budget included a Council Tax Requirement of £143.037m for 2021/22 (including Parish Precepts), which represents 84.1% of the net Council Tax income of £170.167m.
- 4.2 The forecast outturn for the Council at the end of October 2021 is a surplus of -£2.301m. However, it should be noted that the Council Tax Base for 2021/22 was reduced to reflect lower collection rates and increased Council Tax Reduction Scheme claimants. Therefore, this surplus is forecast in the context of a reduction in Council Tax income of £3.564m (see paragraph 2.7). This variation is primarily due to: -
- The deficit on the fund at the end of 2020/21 being lower than estimated (-£0.421m).
 - Gross Council Tax Charges in 2021/22 being higher than estimated (-£1.031m).
 - Exemptions and Discounts (including a forecasting adjustment) being lower than estimated (-£0.849m).
- 4.3 Due to Collection Fund regulations, the Council Tax surplus will not be transferred to the General Fund in 2021/22 but will be carried forward to be recovered in future years.
- 4.4 A forecast deficit of £5.179m was declared on the 21 January 2021 of which Sefton's share is £4.355m (84.1%). This is the amount that will be recovered from the Collection Fund in 2021/22, 2022/23 and 2023/24. Any additional surplus or deficit will be distributed in 2022/23 and future years.

5. Business Rates Income – Update

- 5.1 Since 1 April 2017, Business Rates income has been shared between the Council (99%) and the Fire and Rescue Authority (1%). The Council's Budget included retained Business Rates income of £67.919m for 2021/22, which represents 99% of the net Business Rates income of £68.606m. Business Rates income has historically been very volatile making it difficult to forecast accurately.
- 5.2 The forecast outturn for the Council at the end of October 2021 is a deficit of £22.079m on Business Rates income. This is due to:
- The deficit on the fund at the end of 2021/22 being higher than estimated (+£3.467m).
 - Decrease in the gross charge on rateable properties (+£0.879m).
 - A number of additional reliefs were announced after January 2021 to support businesses during the COVID-19 pandemic. These include expanded retail discount, pub relief, newspaper relief, and private nursery relief. The loss of

income as a result of these reliefs will be covered by Section 31 grant payments. Due to the timing of these announcements the impact of these reliefs could not be incorporated into the budget figures reported in the NNDR1 return (+£17.733m).

- 5.3 When taking into account the additional Section 31 grants due on the additional reliefs, a net deficit of £4.329m is forecast.
- 5.4 Due to Collection Fund regulations, a Business Rates deficit will not be transferred to the General Fund in 2021/22 but will be carried forward to be recovered in future years.
- 5.5 A forecast deficit of £39.206m was declared in January 2021. Sefton's share of this is £38.814m. This is the amount that will be distributed from the Collection Fund in 2021/22, 2022/23 and 2023/24. Any additional surplus or deficit will be distributed in 2022/23 and future years.

6. **Framework for Change 2020 Update- Sandway Homes Limited**

- 6.1 Members will recall that at the October 2021 Cabinet meeting an updated business and delivery plan for Phase 1 was presented for approval. The report contained the following recommendation that was approved:-

Approve these revisions to the Phase 1 Business Plan subject to the receipt of an exit strategy that details the financial risk to the council that would arise should the revised peak debt of £8.3m be reached and the company failed to continue to operate- Details of this will be presented to Cabinet in a follow up report upon receipt.

- 6.2 Officers of the Council have now received details of that Exit Strategy the details of which are as follows.

Exit Strategy considerations

- 6.3 As would be expected, the most appropriate exit strategy for the Company, which the Council would determine and lead, would be dependent upon a number of factors which include the Company's Financial position at a given point in time. As reported to Members in October 2021, the overall 'value' of the Phase 1 Sandway Plan is £30.3m, and this is a five-year plan scheduled to complete in 2024.
- 6.4 Throughout the Business Plan period the appropriate exit strategy would depend upon the stage of construction, and if for example the Contractor was to go into liquidation which would influence the value of the works left to complete on site at that moment in time. It will also depend on the number of un-sold homes, and how long they have been un-sold compared to the phasing assumed within the Business Plan. The value of peak debt of £8.3m in the revised Business Plan is due to be reached by March 2022 with full repayment by March 2024 as reported to Cabinet- to understand the exposure that the Council would face a focus will be placed on the financial position during each quarter of 2022 as this is the year when the higher levels of peak debt will be reached.

The role of an exit strategy

- 6.5 It is essential that a wholly owned council company has an exit strategy so that there is a clear 'route' to exit should there be unexpected shocks which means that the business plan and company become unviable and/or the Council wishes to withdraw its investment. Reference to an agreed exit strategy will be incorporated within the proposed Shareholder Agreement amendments which will be brought to Cabinet in January 2022 and this will place a clear obligation on the Company for this to be reviewed annually as part of the Business Plan review process.

Considerations to me made in exit planning

- 6.6 From discussions with the Company it is considered that there would be three proposed exit routes which would allow the Council to 'step in' if the peak debt was realised and the Company failed to operate. However, before that stage, there are further mitigating factors that the Company / Council could deploy to improve the overall position and mitigate risk. A summary of these exit strategy routes, and associated risk monitoring is provided as follows:

a) Un-sold stock: sales monitoring and dashboards

The revised business plan as presented to Cabinet in October 2021, contained sales contingency provision. This relates to an element of financial headroom in the plan to allow the Company to incentivise sales if plots remain un-sold for a period of 3 months beyond the plot completion date. Typical incentives include upgrades to kitchens, integrated appliances, inclusion of carpets and floor finishes, assistance with legal fees- this strategy would improve sales and income should there be a slowdown in completion, and this improve the Company position and Council's exposure.

b) Un-sold stock: individual plot sales to a Registered Provider or Investor

If there are properties that remain un-sold for a period of beyond 6 months, the Council could seek a disposal strategy from the Company, involving the sale of stock to either a Registered Provider or an Investor. There are a number of Registered Providers actively operating / developing homes in Sefton who would be interested in acquiring stock for affordable housing purposes. Sandway could also register as a Registered Provider entity and retain properties for shared ownership / rent to buy however that would require a re-negotiation of current loan terms and a likely extension for 5-10 years to cover the initial first tranche sales period.

There are equally larger Build to Rent investors with Organisations such as Legal & General and Lloyds Banking Group who have recently entered the market, seeking to acquire residential stock. Similarly, smaller pension fund investors exist, who could potentially step in to acquire stock. Development assumptions will differ between an RP investor / private investor, and it may be that the Council would lose a percentage of its overall income by disposing of properties in this manner.

These options would equally apply should the company reach a position where it is no longer operating.

c) Retention of stock for market rent / affordable housing purposes

If the Company is no longer operating, the Council may equally opt to re-finance and retain any un-sold Sandway stock for use as affordable or market rented housing. As previously reported to Members, the Council is currently considering its options around the provision and delivery of affordable homes and council

housing and an assessment of acquiring completed stock from the Company could be considered as part of that process.

It should be noted that should this option be preferred, retaining a rented portfolio would require the Council to re-finance the existing £8.3m peak debt loan, to cover the full development costs of the remaining stock, due to the properties becoming rented units, as opposed to open market. This option as is the case with the 2 previous options would require a full financing and financial appraisal to inform member decision making.

Future financial exposure

- 6.7 As previously reported, the Council intends to forecast and report what its overall financial exposure will be at a given point in time and this will be dependent upon overall contractual commitments, sales exposure, and the level of headroom within the peak debt provision. This information will be reviewed on at least an annual basis as part of the Sandway Business Plan update provided to Cabinet.
- 6.8 The start-up costs associated with the Company, including legal fees, professional fees (for design and planning for Phase 1), and staffing costs are £1.33m. Whilst arguably some of these costs could be re-claimed from the sale of the homes- it has to be assumed that there could be additional costs associated with the dissolution of the Company if required, and equally the cost of sale if the Council chose to dispose of any un-sold stock.
- 6.9 As stated the peak debt is estimated to be reached in March 2022 and with the business plan being regularly updated and material variations provided to Cabinet as required and the exit strategy being updated on an annual basis, it is considered that the financial exposure facing the Council during 2022, should be the immediate focus for understanding and to inform approval of the revised business plan and peak debt.
- 6.10 As such the following table provides a financial projection for the next 12 months of how the committed programme and unsold homes are anticipated to be each quarter and the residual balance that the Council would need to fund.
- 6.11 At the start of Q4 2021-22 the opening debt is £5.7m. There is a contractual commitment remaining to Barnfield Construction of £14m, with on costs for the quarter including professional fees, marketing fees, staffing and overheads of £0.6m and a total stock value of £28.3m which is net of grant funding.
- 6.12 As a result of this the financial exposure for SMBC would be £14.2m, which is the balance to complete the construction works alongside sales income being received. It should be noted that this is the position the Council is in at this point in time.
- 6.13 From Q1 2022-23, the Company will start to receive sales income, and at the same time construction payments will start to reduce month on month, hence the overall 'residual balance', with financial exposure and risk also reducing on a quarter by quarter basis. As a result, from Q1 2022-23 the residual balance and risk reduces to £12.3m, through to £3.6m by the end of Q4 2022-23.

	<u>Q4 21/22</u>	<u>Q1 22/23</u>	<u>Q2 22/23</u>	<u>Q3 22/23</u>	<u>Q4 22/23</u>
Opening Loan position	-£5,693,000				
Construction Commitments	-£14,048,778	-£10,593,568	-£8,613,154	-£7,610,760	-£6,482,245
Average other commitments	-£614,667	-£614,667	-£614,667	-£614,667	-£614,667
Un-sold stock	£28,318,632	£22,952,809	£17,352,906	£13,853,619	£10,151,995
Residual Balance for SMBC to fund	14,269,854	12,359,242	8,739,751	6,242,859	3,669,750

Conclusion

- 6.14 From this statement it can be seen that the Company has provided to the Council an exit strategy that will be reviewed on an annual basis. This initial draft details the options that could be available to the council should the company no longer operate and importantly some of the options that could mitigate the Council's financial exposure before that point is reached.
- 6.15 The peak debt of £8.3m will be reached in March 2022 and it is clear from the analysis provided that the financial risk to the Council from Phase 1 is focussed on 2022 when the contractual commitments to the main building contractor are at the highest. This risk is forecast to reduce during the year as sales income is generated following build and sales completion, but the residual financial obligation that would fall on the Council is clearly set out. As a result, monitoring will be undertaken on a monthly basis and will be reported to the Shareholder Representative, and where any changes are material, to Cabinet for decision.
- 6.16 As such it is considered that there is clear visibility on the financial exposure that the council will be subject to as the level of peak debt is reached and also how this should reduce during 2022 based on current projections from the company. As is expected it is clear that this scenario is totally dependent on completion of build and sales in accordance with the revised Business Plan that was presented to Members in October 2021. In the event that there are any material changes to this over the next 6 months in particular, further reports will need to be provided to Cabinet as the Shareholder for consideration.
- 6.17 Should the Council find itself in a position where the exit plan needs to be considered, a detailed financial appraisal of all options will need to be undertaken with expert external advice and support, in order to determine the most favourable solution for the Council- the table in this extract provides Members with a current estimate of financial exposure, however it is important to note that any exit strategy will need to take into account, re-financing costs as set out in the report, grant funding that maybe available to registered providers or investors to support acquisition, current market conditions and scale of unsold stock. Such an exercise would be complex and would need to include details of how any residual balance or deficit would be met by the Council which would inform member decision making.

7. Capital Programme 2021/22 – 2023/24

Capital Budget

7.1 The Capital Budget and profile of expenditure for the three years 2021/22 to 2023/24 is as follows:

2021/22	£50.703m
2022/23	£22.173m
2023/24	£8.481m

7.2 The following updates have been made to the capital programme budget since the previous report to Cabinet in November:

- **Adult Social Care** – the rate of delivery for Disabled Facilities Grants is now improving. An additional £0.165m has therefore been phased from 2022/23 to 2021/22 for the increase in forecast spend in the current year.
- **Economic Growth & Housing** – £0.300m has been phased from 2021/22 to 2022/23 for the delivery of the Strand Business Plan.
- **Highways and Public Protection** – £1.556m for the LED Street Lighting Project has been phased from future years to 2021/22 and the full list of Highways schemes for 2021/22 has also been approved (see 2.3. and 2.4. below).
- **Operational In-House Services:**
 - £0.237m has been phased from 2021/22 to 2022/23 for the Regional Coastal Monitoring Programme.
 - £0.240m has been phased from 2021/22 to 2022/23 for Ainsdale Coastal Gateway. The bulk of car park work will now be delivered later than expected into early 2022/23 due to time needed for planning permission and restrictions on construction on site due to the protected habitat in and around the site. The refurbishment of the public toilets is expected to take place through the winter with an aim to be open for Easter 2022.
 - £0.816m has been phased from 2021/22 to 2022/23 for the Vehicle Replacement Programme due to protracted delivery times quoted by suppliers.

7.3 Authority has been delegated within the Financial Procedure Rules to Cabinet Member in conjunction with Head of Service to assign funding to individual schemes within the Capital Programme from the block allocations approved by Council. The list of schemes for 2021/22 Highways Programme has now been fully developed and approved by Cabinet Member. A full list of the approved Highways schemes can be found at Annex A.

7.4 The total forecast for the LED Street Lighting budget has increased to £2.048m due to revised delivery targets and the opportunity of increased workload in the summer months with late light nights and weekend working being implemented by the contractor to mitigate as much as possible the identified risk of significant future energy price rises. There are likely to be further fluctuations to these budget estimates however, from issues that may affect delivery such as Covid illness and potential component delivery issues in the manufacturing industry. The

performance of the contractor will be monitored closely in the coming months and any revised estimates will be reported on future budget updates to Cabinet.

Budget Monitoring Position to October 2021

- 7.5 The current position of expenditure against the budget profile to the end of October 2021 is shown in the table below. It should be noted that budgets are profiled dependent upon the timing of when works are to be carried out and the anticipated spend over the financial year. For example, Education Excellence will typically carry out most of its capital works during key school's holiday periods such as the summer recess, whilst Highways and Public Protection will complete most of its programmed works during quarters two and four of the financial year. The budget to date in the table below reflects the profiles of each individual scheme.

Service Area	Budget to Oct-21	Actual Expenditure to Oct-21	Variance to Oct-21
	£m	£m	£m
Adult Social Care	2.039	2.119	0.080
Children's Social Care	0.025	0.025	-
Communities	0.510	0.508	-0.002
Corporate Resources	0.212	0.197	-0.014
Economic Growth & Housing	2.539	2.296	-0.243
Education Excellence	2.824	2.847	0.023
Highways & Public Protection	3.385	3.364	-0.022
Operational In-House Services	5.922	5.984	0.062
Total Programme	17.456	17.340	-0.116

- 7.6 A significant underspend of £0.243m has occurred in the Economic Growth & Housing budget compared to the profile to the end of October. This is largely due to a project delay from a building control issue relating to fire compartmentalisation on the Crosby Lakeside Redevelopment. Steel framework is also behind schedule. The bulk of work is now forecast to be completed from January to March 2022.

Capital Programme Forecast Outturn 2021/22

- 7.7 The current forecast of expenditure against the budget profile to the end of 2021/22 and the profile of budgets for future years is shown in the table below:

Service Area	Full Year Budget 2021/22	Forecast Out-turn	Variance to Budget	Full Year Budget 2022/23	Full Year Budget 2023/24
	£m	£m	£m	£m	£m
Adult Social Care	4.976	4.941	-0.035	4.429	1.624
Children's Social Care	0.100	0.100	-	-	-
Communities	2.482	2.482	-	0.572	0.090
Corporate Resources	5.383	5.383	-	0.404	-
Economic Growth & Housing	10.946	10.946	-	1.488	0.135

Education Excellence	4.795	4.801	0.006	4.994	1.855
Highways & Public Protection	13.788	13.788	-	3.742	3.606
Operational In-House Services	8.233	8.233	-	6.543	1.171
Total Programme	50.703	50.675	-0.029	22.173	8.481

A full list of the capital programme by capital scheme is at **appendix A**.

7.8 The current 2021/22 budgeted spend is £50.607m with a budgeted spend to September of £13.390m. The full year budget includes exceptional items such as £6.4m for vehicle replacement, £1.9m for Green Homes Local Delivery, £1.050m Brownfield Fund for Housing Development, £1.875m for Southport Town Deal projects, £2.5m for the Marine Lake Events Centre, previously approved amounts for essential repairs and maintenance (£3.550m), a scheme to upgrade to LED Street Lighting (£0.815m), and leisure schemes for a new sports hub and improvements to an existing football pitch (£1.378m).

7.9 Typically, on an annual basis the capital programme spends in the region of £25m. Given this typical annual level of spend it is likely that reprofiling of spend into 2022/23 will occur as the year progresses.

Supplementary Capital Estimates

7.10 The following supplementary estimates are presented for approval:

- a) Bootle Town Centre Commission – an additional allocation of £140,000 funded by £100,000 grant from the Combined Authority and £40,000 from the Contain Outbreak Management Fund to complete works at Bootle canal side.
- b) Orrell Mount Football Pitch – an additional allocation of £90,396 is needed to complete the project due to increased materials and electrical supply costs. This will be funded from Section 106 monies from the St Wilfrid's site in the adjacent Litherland ward.

Programme Funding

7.11 The table below shows how the capital programme will be funding in 2021/22:

Source	£m
Grants	35.119
Contributions (incl. Section 106)	1.168
Capital Receipts	5.031
Prudential Borrowing	9.385
Total Programme Funding	50.703

7.12 The programme is reviewed on an ongoing basis to confirm the capital resources required to finance capital expenditure are in place, the future years programme is fully funded, and the level of prudential borrowing remains affordable.

7.13 The Executive Director Corporate Resources and Customer Services will continue to manage the financing of the programme to ensure the final capital funding arrangements secure the maximum financial benefit to the Council.

APPENDIX A – Capital Programme 2021/22 to 2023/24

Capital Project	Budget		
	2021/22 £	2022/23 £	2023/24 £
Adult Social Care			
Care Homes - Fire Alarms & Emergency Lighting	98,310	-	-
Core DFG Programme	1,140,000	333,566	-
Wider Social Care Programme	3,738,089	4,095,902	1,623,750
Children's Social Care			
Support for Fostering Placements	100,000	-	-
Communities			
Dunes Splashworld – Essential Repairs	1,014,700	292,704	81,470
Litherland Sports Park – 3G Pitch & Lighting	250,000	-	-
Orrell Mount Sports Hub	1,128,047	-	-
Libraries - Centres of Excellence	20,000	279,301	-
S106 - Netherton & Orrell – Abbeyfield Park	11,942	-	-
S106 - Linacre - Strand Living Wall	10,665	-	-
S106 - Sudell – Moorhey Shops Parking Scheme	16,625	-	-
S106 - Ford – Stanton Avenue One Way System	-	-	9,000
S106 - Litherland – Play Equip Orrell Mount Pavilion	30,000	-	-
Corporate Resources			
Council Wide Essential Maintenance	2,308,330	-	-
STCC Essential Maintenance	87,680	-	-
Victoria Baths Essential Works	138,974	-	-
Bootle & Southport Town Hall Retrofit Energy Saving	788,087	-	-
Green Homes Grant Local Delivery Scheme	1,900,000	-	-
Public Sector Reform	160,000	404,337	-
Economic Growth & Housing			
Strategic Acquisitions - Bootle	434,473	-	-
The Strand Business Plan – Mtce. and Improvement	120,000	540,000	135,000
Cambridge Road Centre Development	795,123	-	-
Crosby Lakeside Development	2,791,997	-	-
Town Centre Commission Bootle	150,000	-	-
Southport Market Redevelopment	813,938	20,039	-
Marine Lake Events Centre	4,095,000	-	-
Enterprise Arcade	250,000	-	-
Strategic Acquisitions - Ainsdale	299,500	891,859	-
Housing Investment	15,188	36,180	-
Brownfield Fund for Housing Development	1,050,000	-	-
Southport Pier Project	130,886	-	-

	2021/22 £	2022/23 £	2023/24 £
Education Excellence			
Healthy Pupils Fund	1,486	-	-
Schools Programme	3,476,104	3,145,893	1,854,957
Planned Maintenance	430,982	834,043	-
Special Educational Needs & Disabilities	886,313	1,013,579	-
Highways and Public Protection			
Accessibility	1,088,000	-	-
Completing Schemes/Retentions	40,000	-	-
Healthy Lifestyles	1,100,000	-	-
Road Safety	120,000	-	-
A565 Route Management and Parking	1,825,000	-	-
A59 Route Management Strategy	190,000	-	-
Strategic Planning	983,292	-	-
Traffic Management and Parking	60,000	-	-
Active Travel	1,093,314	-	-
Highway Maintenance	3,909,928	-	-
Bridges & Structures	300,000	-	-
Drainage	150,000	-	-
Street Lighting	2,671,000	3,742,035	3,605,580
UTC Maintenance	60,000	-	-
Major Transport Schemes	197,000	-	-
Operational In-House Services			
Burials & Cremation Insourcing - Vehicles & Equip	90,663	-	-
Formby Strategic Flood Risk Management Prog.	-	43,851	-
Merseyside Groundwater Study	31,508	-	-
Regional Coastal Monitoring Programme 2016-2021	391,654	-	-
Regional Coastal Monitoring Programme 2022-2026	597,000	972,000	1,058,000
The Pool & Nile Watercourses	124,121	-	-
Crosby Flood & Coastal Scheme	57,219	763,261	-
Hall Road & Alt Training Bank - Rock Armour	-	45,775	-
Ainsdale & Birkdale Land Drainage Scheme	25,973	-	-
Surface Water Management Plan	18,000	81,445	-
Surface Water Modelling & Mapping	13,601	-	-
Small Watercourse Works	7,638	-	-
Water Level Monitoring Pilot	13,000	5,000	-
Parks Schemes	143,409	171,385	-
Tree Planting Programme	68,747	126,783	-
Golf Driving Range Developments	398,822	280,280	-
Ainsdale Coastal Gateway	111,050	240,488	-
Crosby Marine Lake Improvements – Phase 1	155,000	-	-
Litter Bin Infrastructure	22,358	-	-

	2021/22 £	2022/23 £	2023/24 £
Green Sefton – Plant & Machinery	-	131,152	-
Vehicle Replacement Programme	5,543,468	1,736,762	113,000
Wheeled Bins	420,000	1,945,000	-
TOTAL PROGRAMME	50,703,204	22,172,620	8,480,757