Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) Cabinet Council	**Date of Meeting:**	6 February 2024 8 February 2024 29 February 2024
Subject:	Capital Strategy 2024/25		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

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

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

Recommendation(s):

<u>Overview & Scrutiny Committee is asked to:</u>

1) Consider the proposed Capital Strategy document as set out in Appendix A.
2) Provide any comments to Council that will be considered as part of the formal approval of the Capital Strategy.

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

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

Council is recommended to:

Approve the Capital Strategy as set out in Appendix A.

Reasons for the Recommendation(s):

The Capital Strategy is a key policy document for Sefton Council and follows guidance issued in the Prudential Code for Capital Finance in Local Authorities (2021 Edition). Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003

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

None

What will it cost and how will it be financed?

(A) Revenue Costs

There are no direct revenue costs associated with the recommendations in this report.

(B) Capital Costs

There are no direct capital costs associated with the recommendations in this report.

Implications of the Proposals:

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

Resource Implications (Financial, IT, Staffing and Assets):
The Capital Strategy outlines the governance and framework for future capital investment decisions. Proposals may have an impact on physical assets and/or ongoing revenue income and expenditure, and this will be assessed during the approval process.

Legal Implications:
The Council's decision-making processes resulting in the implementation of any capital programme must be transparent.

Equality Implications:
N/A

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y

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

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

Contribution to the Council's Core Purpose:

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

Facilitate confident and resilient communities:
The Capital Strategy demonstrates a clear commitment to early intervention and prevention and working with partners, communities and local businesses to reduce the reliance on the public sector.

Commission, broker and provide core services:
The Capital Strategy recognises that where it is necessary to do so, the Council will continue to be a provider of those core services that the community expects to see delivered but will use new service delivery models and new forms of partnership.

Place – leadership and influencer:
The Capital Strategy will see the Council continue to demonstrate strong and effective leadership building on its proven track record of engagement, consultation, listening and considering feedback in the decision-making process.

The Council continues to work with partners towards common goals, moving away from traditional ways of working focused around delivering services and is demonstrating a greater role in influencing, shaping, enabling and building community capacity.

Drivers of change and reform:
The Capital Strategy demonstrates the Council is playing a key role in leading and driving change and reform to improve outcomes for Sefton residents and continuously improve the Borough.

Facilitate sustainable economic prosperity:
The Capital Strategy clearly articulates the Council's approach to investing in order to achieve financial sustainability and the ambitions of Sefton 2030.

Greater income for social investment:
The Capital Strategy recognises the Council's commitment to developing a commercial nature, looking at what it can do either by itself or with others to generate income and a surplus that can be reinvested into delivering social purpose.

Cleaner Greener: The Capital Strategy recognises the Council's commitment to work with others to maintain Sefton's natural beauty and ensure that its many assets

provide a contribution to Sefton's economy, people's wellbeing and the achievement of the 2030 Vision.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD 7511/24) is the author of the report.

The Chief Legal and Democratic Officer (LD5611/24) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

Officers will be authorised to implement all decisions within this report immediately following Council on 29th February 2023.

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Appendices:

Appendix A – Capital Strategy 2024/25

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

1. Introduction

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

2. Content

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

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

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

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

Appendix A

Capital Strategy

2024/25

Sefton Council

1. Introduction

1.1 This Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance understanding of all stakeholders and those who may be interested in the Council’s activities.

1.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

2. Background

2.1 The Capital Strategy is a key policy document for Sefton and follows guidance issued in the Prudential Code for Capital Finance in Local Authorities (2021 Edition). It is an overarching document which sets the policy framework and governance for the development, management and monitoring of capital investment and the use of capital resources. The strategy reflects the Council’s Vision for 2030, Core Purpose, and sets out how capital expenditure will play a significant role in its delivery through the Growth Programme. The Capital Strategy is aligned to the Treasury Management Strategy, Medium Term Financial Plan (MTFP), Asset Management Strategy and the Disposal Policy and all other approved policies and frameworks.

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

2.3 One of the fundamental requirements and drivers to maintain and continually update the Council’s Capital Strategy is the greater emphasis on locally generated income (e.g. Council Tax and Business Rates) to support local government funding. The reliance on this income to support the delivery of frontline services means that it is important that the Council, working with its partners, optimises the opportunity. As a result, development of economic growth is important in ensuring that financial sustainability for the Council is achieved, and the ambitions as set out in Vision 2030 are met. This is particularly relevant and important as a result of the ongoing impact of the prevailing economic conditions in the United Kingdom, namely high inflation, rising interest rates and a cost-of-living crisis, which together with increased demand for and cost of Council services means that authorities across the country are under extreme financial pressure.

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

2.5 The Strategy is brought forward in the recognition that Cabinet has approved and published a number of Town Centre Investment Frameworks and other policies and that should the opportunity present itself the Council might be the investor, subject to consideration of a robust business case in accordance with the Financial Procedure Rules, as has been the case with major developments planned for Crosby, Bootle and Southport.

2.6 The Capital Strategy will be the framework from which capital expenditure and investment decisions in Sefton are made to enable the delivery of the growth programme. The decision-making process will consider stewardship, value for money, prudence, sustainability and (long-term) affordability. The Capital Strategy contains:

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

2.7 A new International Accounting Standard (IFRS 16) on leases is due to be adopted by the Code of Practice on Local Authority Accounting with effect from 1 April 2024. The new standard is expected to bring most operating leases onto the Council's balance sheet (subject to exceptions for short dated and low value leases). This will have an impact on the Capital Financing Requirement (CFR) on 1 April 2024, however, as the values are to be measured at that date the impact is not currently known. The capital values used to prepare this report, the Council's Prudential Indicators report, and Treasury Management Policy and Strategy for 2024/25 (also included on the agenda for this meeting) are therefore based on the amounts reported under the current lease accounting standard (IAS 17) which does not require operating leases to be capitalised. The impact of IFRS 16 during 2024/25 will be assessed and Cabinet and Council will be informed of any material changes to the prudential indicators.

3. Capital Programme Governance and Prioritisation

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

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

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

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

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

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

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

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

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

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

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

4. Capital Expenditure and Resources

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

4.2 In 2024/25, the Authority is planning capital expenditure of £86.881m:

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

Capital Expenditure					
	2022/23 £m Actual	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate
TOTAL	38.782	52.604	86.881	75.369	30.035

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

4.4 The Council may also receive additional block allocations of grant from central government and the City Region for 2024/25 but these have not yet been confirmed. The grant allocations will be added to the capital programme following approval by Cabinet and Council. The estimated amounts to be received, and included in the estimates of capital expenditure (above), are shown below for information. There may be further allocations which will be approved by Cabinet and Council.

- Disabled Facilities Grant - £4.823m
- Schools Condition Allocation - £2.208m
- Devolved Formula Capital Grant - £0.339m
- City Region Sustainable Transport Settlement - £10.766m.

4.5 The increase in capital expenditure during 2023/24 and 2024/25 shown in the table above represents additional allocations added as part of the traditional capital programme and new schemes included in the Council's Strategic Investment Programme including the Southport Town Deal and the Strand Repurposing Programme.

4.6 The Town Deal projects (see Section 8 "Town Deal") were approved by the Department for Levelling Up, Housing and Communities (DLUHC). The allocation for Phases 1A-C of the Strand Repurposing Programme is funded by grant from DLUHC (see Section 9 "Bootle Strand Repurposing Programme") with further contributions anticipated from the Liverpool City Region Combined Authority.

4.7 Due to the size and complexity of the Council's capital programme, some schemes may also be rescheduled from previous years and thus increase the overall estimate of expenditure. The majority of the additional expenditure will be funded from external grants, contributions and capital receipts. This may change as grant allocations and additional capital schemes are made known to the Council and are approved for inclusion within the Capital Programme.

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

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

4.10 Capital expenditure is typically funded from:

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

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

Table 2: Capital financing in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Grants	28.891	40.084	62.147	54.497	23.067
Capital Receipts	1.517	3.149	6.802	2.500	2.387
Contributions	2.607	2.292	6.104	0.011	0.011
Borrowing	5.766	7.078	11.827	18.362	4.570
TOTAL	38.782	52.604	86.881	75.369	30.035

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

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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Minimum revenue provision (MRP)	7.090	7.318	7.445	8.318	8.699
Capital receipts	-	-	-	-	-
TOTAL	7.090	7.318	7.445	8.318	8.699

4.13 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP. The CFR is expected to increase by £3.715m during 2024/25. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

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

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
TOTAL CFR	231.309	230.525	234.240	243.548	238.647

Prudential Borrowing

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

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

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

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

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

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

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

5 Asset Management Strategy

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

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

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

5.4 When a capital asset is subject to disposal, the proceeds received are known as capital receipts. These can be spent on new assets or used to repay debt. The Authority plans to utilise £4.749m of capital receipts in the coming financial year. This will be funded from asset sales which have been approved as part of the wider asset disposal programme. This is part of a wider pipeline of asset disposals which total approximately £30m.

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

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

6 Commercial Activities

6.1 This section aims to bring together for visibility details of assets held by the Council which generate a financial return. These relate to legacy arrangements such as concessions at Southport seafront, parks and gardens; the freehold interest in the Strand Shopping Centre; rents linked to small retail units; industrial units; clubs; and car park income. These are legacy arrangements and there have been no such investments in recent history. The Council has not and will not invest out of borough.

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

6.3 The governance structure for all capital investment and expenditure decisions, explained in Section 3, contains additional gateway processes which allow further scrutiny, checks and levels of approval for commercial activity in recognition of the enhanced risk involved.

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

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

7.1 The Council makes investments to assist local public services which includes making loans to the Council's subsidiaries that provide services and support the Council's Core Purpose.

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

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

7.4 The last Business Plan update was provided to Cabinet in December 2023. This builds on previous annual business plan updates that are provided which then inform budget estimates that are included in the Medium Term Financial Plan for subsequent years. The update estimates that a dividend of £0.301m would be paid to the Council in November 2025 upon completion of Phase 1 and that this is in addition to a capital receipt of £2.2m from the sale of 3 sites.

7.5 The Council also approved a loan between itself and the company and the current peak debt estimate for the company is £8.3m as reported to Cabinet in September 2023. The Business Plan update provided to Cabinet in December 2023 highlights the challenges linked to the wider economic environment. This may mean the peak debt level needs to be reconsidered alongside the associated risks. Any changes to the peak debt will be approved via the appropriate governance route.

7.6 A similar arrangement exists for the wholly owned hospitality company, Sefton Hospitality Operations Limited for whom an initial lower debt facility of £0.5m has been provided. This was revised to £1.4m as reported to Cabinet in December 2023 due to changes in the external economic environment and the impact those changes have on the business plan for the company. This increased shareholder loan supports the business in its long-term sustainability given the external pressures whilst also supporting the growth of the business.

7.7 The total investment for service purposes as at 31 December 2023 is £5.818m which relates to loans to Sandway Homes £5.718m and Sefton Hospitality Operations Limited (SHOL) £0.1m. This provides a net return after all costs of 2.2% above the national loans rate (as published by the Debt Management Office).

7.8 The Council also own shares in Sefton New Directions (SND) which is a wholly owned subsidiary. There has been no additional direct investment such as loans or debt facilities made available by the Council to the company.

7.1 The following table provides an overview of the net income from both commercial and service investments:

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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Total net income from service and commercial investments (£m)	2.704	2.648	2.653	2.971	2.506
Proportion of net revenue stream	1.2%	1.1%	1.0%	1.1%	0.9%

8 Southport Town Deal

8.1 Southport is set to receive £37.5m in government funding for a range of projects across the town centre and sea front following a successful bid to the Government's

Towns Fund. The award represents one of the largest Town Deals that the government has agreed nationally and across 101 towns.

8.2 Cabinet approved the bid submission and Town Investment Plan (TIP) at the October 2020 Cabinet meeting. The process requires leadership of a Town Deal Board, with a private sector Chair, but the Council is required to undertake the role of Accountable Body for the bid and to be the organisation through which funding will flow.

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

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

8.4 The Capital Strategy sets the governance framework from which the Council as Accountable Body for the bid will ensure: good governance, transparency, public consultation (building on the Community Engagement Plan – May 2020), developing detailed and robust business cases, monitoring and evaluating projects, receiving and accounting for the funding allocation, and which Council approvals will be required in accordance with Financial Procedure Rules.

8.5 The business cases for each of the projects have now been approved by the Department for Levelling Up, Housing and Communities (DLUHC) – for the £37.5m Town Deal funding – and by the Liverpool City Region Combined Authority who are providing an additional £20m towards the Marine Lake Events Centre development. Procurement activity in relation to the projects has commenced and, subject to other relevant consents, they are moving towards the delivery phase with delivery of all projects currently anticipated by 2026/27.

8.6 Council also approved a contribution of £19.7m towards the Marine Lake Events Centre project. The Council's Treasury Management advisors have been consulted on the approach to the appropriate finance arrangements. The intention is to internally borrow in the short to medium term using surplus cash balances in order to reduce the associated interest costs to the Council. This will continue to be kept under regular review with the advisors and any changes to this assumption, including any external borrowing requirement, will be reported as part of the regular treasury management updates to Members.

9 Bootle Strand Repurposing Programme

9.1 The Council's objectives for the acquisition of The Strand in 2017 were for regeneration purposes, to ensure that it was supported to continue its role in the local community, as a key asset at the heart of Bootle critical to the town's physical, economic, and social regeneration. This remains the Council's priority in relation to the Strand.

9.2 In December 2023, Cabinet approved a robust business case which sets out the deliverability of Phase 1 of the Programme and provides accompanying financial forecasts for the coming years, via an updated 5-year Business Plan, accounting for the impacts of the economy and of the works on day-today operations as well as outlining the positive outcomes on the Business Plan and wider regeneration objectives of proceeding with the Programme.

9.3 The Council has been awarded £20m of Capital Levelling Up Funding from the DLUHC to fund the initial Phases 1A-C of the Programme. Additional funding is being sought from the Liverpool City Region Combined Authority for Phase 1D £18m together with additional enabling capital of £7m. On confirmation on the funding, Council approvals will be required for the associated supplementary estimates in line with the requirements of the Financial Procedure Rules.

10 Crosby New Library and Health Hub

10.1 In August and December 2023, Cabinet approved an Outline Business Case for a new building in Crosby to provide library services and the provision of new health facilities in the form of accommodation for local GP services.

10.2 The initial capital cost element for the new building is £13.8m and Cabinet approved the development of a Full Business Case (FBC). This business case would be subject to Cabinet and Council approval in line with the requirements of the Financial Procedure Rules.

11 Non-Financial Investment Strategy

11.1 The Council’s non-treasury investments consist of an Investment Property portfolio of over 184 properties. They delivered a return for the Council after deducting for the cost of maintenance, net income of £2.531m in 2022/23, which contributes towards the provision of services.

11.2 The investment property portfolio is fully owned by the Council and no outstanding loans are held against it. No new investment properties have been added for several years. Any future purchases of such assets will follow the procedures set out in sections 3 and 4.

11.3 All properties classified as investment properties are revalued on an annual basis as part of the Statement of Account process and valuations are externally audited. The value at 31st March 2023 was £27.315m. All investment properties are valued at greater than original purchase price and have hence produced an unrealised capital return.

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

11.5 Any loans made by the Council that will support the Core Purpose, will require a full business case including robust due diligence and will be approved in accordance with the Council’s governance processes. Any loan granted will be within the Council’s approved prudential indicators.

12 Treasury Management, Debt and Borrowing

Treasury Management

12.1 The Council has adopted CIPFA's revised 2021 Code of Practice on Treasury Management in public services which recommends the production of an annual Treasury Management Policy and Strategy documents. These documents are approved as part of the annual budget setting process and are monitored by the Audit and Governance Committee. The strategy document sets out in detail how the treasury management activities are to be undertaken in a particular year to comply with the Council's Treasury Management policy.

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

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

Table 6: Treasury management investments in £millions

	31.3.2023 actual	**31.3.2024 forecast**	**31.3.2025 budget**	**31.3.2026 budget**	**31.3.2027 budget**
Near-term investments	26.110	16.000	5.00	5.00	5.00
Longer-term investments	5.00	5.00	5.00	5.00	5.00
TOTAL	31.110	21.000	10.000	10.000	10.000

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

Debt and Borrowing

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

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

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

12.8 Due to decisions taken in the past, the Authority has £128.716m borrowing at an average interest rate of 3.76% and £31.9m treasury investments at an average rate of 4.85% as at 31 December 2023.

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

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

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Debt (incl. PFI & leases)	139.192	141.293	168.288	182.340	181.481
Capital Financing Requirement	231.309	230.525	234.240	243.548	238.647

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

12.11 To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to £10m at each year-end. This benchmark is currently £105m and is forecast to rise to £158m over the next three years.

Table 8: Borrowing and the Liability Benchmark in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Outstanding borrowing	133.7	121.8	113.8	109.5	106.2
Liability benchmark	105.4	131.1	158.6	142.3	158.1

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

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

	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit
Authorised limit – borrowing	167	195	210	210
Authorised limit – PFI and leases	6	5	4	3
Authorised limit - total external debt	173	**200**	214	213
Operational boundary – borrowing	142	170	185	185
Operational boundary – PFI and leases	6	5	4	3
Operational boundary - total external debt	148	175	189	188

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

12.14 The Council has regard to the Department for Levelling Up, Housing and Communities' (DLUHC) guidance on the application of minimum revenue provision (MRP). The recommended MRP policy is summarised below:

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

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

Public Works Loan Board (PWLB)

10.16 Borrowing by local authorities from the PWLB has increased markedly during the last ten years, with many councils borrowing to fund the acquisition of commercial assets with the intention of generating an income stream from such assets.

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

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

- Councils are asked to submit a high-level description of their capital spending and financing plans for the following three years, including expected use of the PWLB. Councils will be able to revise these plans in year as required.
- Councils will be asked to provide details of the following:
  - how much they plan to spend each year in each of the following set of categories, which have been developed in consultation with the sector and cover all acceptable capital activity that can be funded via PWLB loans.
    - Service spending
    - Housing
    - Regeneration
    - Preventative; and
    - Treasury Management
  - a short description of the main projects in each of these categories covering 75% of the spending in that category
  - The Section 151 Officer or equivalent must provide assurance that the council is not borrowing in advance of need and does not intent to buy investment assets primarily for yield.

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

11 Liabilities

11.1 This section of the Capital Strategy covers the following:

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

Pension Liability

11.2 The Statement of Accounts shows a liability relating to the Local Government Pension Scheme Fund deficit (valued at £27.936m as at 31st March 2023).

However, this is a notional figure that doesn't reflect the true position calculated as part of the Triennial Valuation in March 2022 which shows that the Council's element of the Fund is in surplus.

11.3 As at 31 March 2023 there was a net deficit relating to unfunded Teachers' Pensions attributable to Sefton of £4.598m. The Council has budgeted to make these payments until there is no longer a liability.

Provisions

11.4 The Council's 2022/2023 accounts include a provision for the cost of NNDR checks, challenges and appeals. The total value of the Provision as at 31 March 2023 is £6.239m. Sefton's share of the Provision as at 31 March 2023 is £6.177m.

11.5 A provision has also been made for insurance cover to enable certain known uninsured losses to be met centrally i.e. losses arising from the excesses that apply to the Authority's main insurance policies (Public Liability, Property, Employers Liability and Motor Insurance). The total value of the Provision as at 31 March 2023 is £3.423m.

Contingent Liabilities

<u>Collateral warranty by the Council in favour of the Security Trustee (Prudential Trustee Company Limited)</u>

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

<u>Collateral warranty by the Council in favour of One Vision Housing Limited</u>

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

11.8 <u>Contamination Costs</u>: During 2011/2012, it was identified there was a site in the Borough that was contaminated and there would be significant costs associated with clearing the contamination. Sefton has an Earmarked Reserve of £1.379m to cover potential costs associated with clearing the contamination. There is a potential further liability if the costs of clearing the contamination are greater than currently envisaged.

11.9 <u>Merseyside Pension Fund - Contractor Admission Bodies</u>: The Council provides guarantees for any potential unfunded liabilities on the Merseyside Pension Fund for Sefton New Directions Limited and Agilisys Limited. The most recently notified value of the guarantees was nil for Sefton New Directions Limited and £1.077m for

Agilisys Limited. The values are highly dependent on market conditions at the time of the valuation and can vary significantly between valuations.

12 Revenue Budget Implications

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

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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget *	2026/27 budget
Financing costs (£m)	13.863	12.755	13.654	15.526	16.539
Proportion of net revenue stream	6.0%	5.3%	5.3%	5.8%	6.0%

12.2 Further details on the revenue implications of capital expenditure can be found within the Budget Report.

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

13 Risk Management

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

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

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

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

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

14 Knowledge and Skills

14.1 The Council has a wide range of expertise to call upon, including professionally qualified legal, finance and property officers, to support the delivery of the Capital Strategy and the Vision 2030 / Core Purpose.

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

14.3 Recent changes to the senior management structure have been made to better meet the resource requirements to support the Vision 2030 and the Core Purpose going forward.

14.4 Support services, including Finance, Legal, Property and Business Intelligence and Commissioning, are regularly reviewed with a focus on providing the right support and officers with the necessary skills, to work with the frontline service and project managers. Where gaps in knowledge are identified the relevant training is co-ordinated for individuals or teams. Use is made of external advisors and consultants that are experts in their field where appropriate.

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

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