Sunderland City Council

Item No. 8

CABINET MEETING – 12 OCTOBER 2023

EXECUTIVE SUMMARY SHEET- PART I

Title of Report:
Budget Planning Framework and Medium Term Financial Plan 2024/2025 – 2027/2028

Author(s):
Director of Finance

Purpose of Report:
This report:
- Identifies the key factors influencing the development of the Council's financial plans into the medium term and sets out the budget planning framework for the Council for 2024/2025;
- Sets out the headlines and context for the Medium Term Financial Plan (MTFP) 2024/2025 to 2027/2028;
- Sets out the consultation / communication strategy for the budget 2024/2025; and
- Seeks a recommendation to Council for the approval of the updated Capital Strategy.

Description of Decision:
Cabinet is recommended:
- To note the summary MTFP set out at section 3 of the report and note that the full MTFP 2024/2025 to 2027/2028 will be presented to Cabinet in February 2024;
- To approve the proposed Budget Planning Framework set out at section 4 of the report which will guide the preparation of the Revenue Budget for 2024/2025;
- To approve the consultation / communication strategy for the budget 2024/2025 as set out at section 6 of the report; and
- Recommend to Council approval of the Capital Strategy.

Is the decision consistent with the Budget/Policy Framework?
Yes, it is seeking to inform a future decision to change the Budget and Policy Framework for 2024/2025.

Suggested reason(s) for Decision:
- Adoption of the Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2024/2025; and
- To enable constitutional requirements relating to the development of the Revenue Budget to be met.

Alternative options to be considered and recommended to be rejected:
There are no alternative options recommended for approval.

Impacts analysed: **Equality** ✓ **Privacy** ✓ **Sustainability** ✓ **Crime and Disorder** ✓	
Is the Decision consistent with the Council's co-operative values?	Yes
Is this a "Key Decision" as defined in the Constitution? **Is it included in the 28 day Notice of Decisions**	Yes Yes

CABINET **12 OCTOBER 2023**

BUDGET PLANNING FRAMEWORK AND MEDIUM TERM FINANCIAL PLAN 2024/2025 – 2027/2028

DIRECTOR OF FINANCE

1. Purpose of Report

1.1 This report:

- Identifies the key factors influencing the development of the Council's financial plans into the medium term and sets out the budget planning framework for the Council for 2024/2025;
- Sets out the headlines and context for the Medium Term Financial Plan (MTFP) 2024/2025 to 2027/2028;
- Sets out the consultation / communication strategy for the budget 2024/2025; and
- Seeks a recommendation to Council for the approval of the updated Capital Strategy.

2. Description of Decision

2.1 Cabinet is recommended:

- To note the summary MTFP set out at section 3 of the report and note that the full MTFP 2024/2025 to 2027/2028 will be presented to Cabinet in February 2023;
- To approve the proposed Budget Planning Framework set out at section 4 of the report which will guide the preparation of the Revenue Budget for 2024/2025;
- To approve the consultation / communication strategy for the budget 2024/2025 as set out at section 6 of the report; and
- Recommend to Council approval of the Capital Strategy.

3. Medium Term Financial Plan 2023/2024 to 2026/2027

3.1. The MTFP 2023/2024 to 2026/2027 was approved by Council in March 2023 as part of the 2023/2024 budget setting process. The MTFP is continually updated to reflect changing circumstances and latest known information. The full MTFP 2024/2025 to 2027/2028 will be presented to Cabinet in February 2024.

3.2. Given the ongoing significant uncertainties relating to Government funding, economic turbulence including significant inflation and future pressures on Council services, the focus of this report is on the 2024/2025 budget. Key points to note which impact on the Budget Planning for 2024/2025 and beyond are set out at section 3.3 onwards.

National and Economic context to the 2024/2025 budget

3.2.1 The Russian invasion of the Ukraine has created significant uncertainty in the global economy, particularly in energy markets leading to significant cost increases. Whilst energy prices have fallen from their peak, they remain considerably higher than before the invasion and together with other rises have led to an unavoidable increase in the cost of living in the UK and significant rises in inflation levels.

3.2.2 The Bank of England's Monetary Policy Committee (MPC) announced on 3rd August 2023, for a fourteenth consecutive meeting, it had raised the Base Rate, with a 0.25% rise taking the rate to 5.25%. Notes from the meeting reconfirmed the committee's primary focus is to regain control of inflation and that monetary policy and the Bank Rate would remain "sufficiently restrictive for sufficiently long to return inflation to the 2% target". Following the publication of the inflation data relating to August 2023 and in consideration of the wider economic factors, the MPC voted (5 to 4) to hold the Base Rate at its current level of 5.25%.

3.2.3 Annual CPI inflation dropped to 6.7% in the year to August 2023. Underlying "core" inflation which was unchanged at 6.9% in July reduced to 6.2% in August. Markets will be waiting to assess the impact on CPI inflation of anticipated falls in household energy bills when the energy price cap announced in August comes into effect in October and is expected to bring inflation closer to 5%, although this remains far higher than the BoE target of 2%. Annual wage growth, excluding bonuses, was 7.8% in April to June 2023 which is the highest rate of increase since comparable records began in 2001 and has contributed to persistent inflationary pressures.

3.2.4 GDP growth forecasts were revised down from 0.75% to 0.5% for 2024 and from 0.75% to 0.25% in 2025 which reflects the change in predictions for the Bank Rate profile used in previous forecasts.

3.2.5 The UK unemployment rate for April to June 2023 increased by 0.3% on the quarter to 4.2% and subsequently rose to 4.3% in July 2023. The increase was largely attributable to people unemployed for up to 6 months.

3.3. Central Government Funding for Local Government

3.3.1 The Government's Comprehensive Spending Review in October 2021 provided a three-year Spending Round for departmental budgets, for the financial years 2022/2023 to 2024/2025. The Council's core government funding for 2023/2024 was confirmed in the Local Government Finance Settlement in December 2022. At this time anything other than a one-year settlement is highly unlikely and leads to further uncertainty with regard to the Council's financial planning.

3.3.2 The Autumn Statement 2023 has been confirmed for 22nd November, a week later than for 2022 meaning that the Provisional Local Government Finance Settlement is highly unlikely to be any earlier than the previous year (19th December).

3.3.3 The delayed Fair Funding Review and amendments to the Business Rates retention model were due to be implemented in 2021/2022. One of the consequences of this delay is the accumulated Business Rates growth within the current system that should have been redistributed into a new baseline when Fair Funding and Business Rates Retention was introduced remains as is. This funding currently resides with those authorities generating this growth rather than being redistributed as part of a baseline reset. It is expected that a redistribution would benefit Sunderland, all other things being equal. It is not anticipated that this issue will be addressed as part of the Local Government Settlement planned for this year.

3.3.4 The position will be kept under review; at this stage the timing and outcome of any review is too uncertain to specifically include within the MTFP. The Council will, as and when required, make the case for redistribution of this growth.

Revenue Support Grant (RSG)

3.3.5 Given the delay in the implementation of a revised Business Rates Retention Scheme, RSG is likely to be retained in 2024/2025. Pending any formal announcement on inflationary increases, the MTFP assumes an inflationary increase of 6% for 2024/2025.

Social Care Funding

3.3.6 Members may recall that the 2023/2024 settlement allowed for the continuation of a number of Social Care grants and further Social Care Support Grant. This additional funding, whilst welcome, fails to provide both the certainty and level of funding required to meet the continued cost pressures being experienced within Social Care, driven by demographic, inflationary and workforce retention challenges.

3.3.7 Social Care Grant - Repurposing of funding previously earmarked by the Government for Social Care Charging Reforms of £1.345bn nationally in 2023/2024 and a further £0.532m in 2024/2025. The Chancellor announced the postponement of the Social Care reforms plans from October 2023 to October 2025. This earmarked funding is provided to assist councils to meet their mounting financial pressures in both adults and children's social care delivery. It is unclear how the reforms, which have been delayed until October 2025, will subsequently be funded. From this allocation the Council is expected to receive £13.867m in 2024/2025 (an increase of £3.931m on 2023/24).

3.3.8 Adult Social Care Discharge Fund - For 2024/2025 it is expected that the national allocation will increase to £500m from which the Council is estimated to receive £4.366m to help "ensure those people who need to draw on social care when they are discharged from hospital can leave as soon as possible, freeing up hospital beds for those who most need them". The funding will be pooled as part of the Better Care Fund (BCF).

3.3.9 Adult Social Care Market Sustainability and Improvement Fund (MSIF): In the 2023/2024 settlement the Council was allocated £3.671m from a national funding pot of £562m. This is ringfenced for the primary purpose to make tangible improvements to adult social care services in particular to build capacity and improve market sustainability. For 2024/2025 it is expected that the national funding allocation will increase to £845m from which it is estimated that the Council will receive £5.520m.

3.3.10 On 28th of July 2023, the Department for Health and Social Care (DHSC) announced a further £570m of ringfenced funding across financial years 2023/2024 (£365m) and 2024/2025 (£205m) to local authorities to improve and increase adult social care provision, with a particular focus on workforce pay through the MSIF. The Council has been allocated £2.384m for 2023/2024. Allocations for 2024/2025 have not been announced but if apportioned on the same basis it could be assumed that the Council would receive c£1.339m. The grant is one off and should be used to:

- increase fee rates paid to adult social care providers;
- increase adult social care workforce capacity and retention; and
- reduce adult social care waiting times.

Public Health Funding

3.3.11 It was envisaged that Public Health would be rolled into the overall local government funding position following the Fair Funding Review, with the risk that the Council could lose significant funding should the Government adopt a different allocation methodology. Annual allocations of the ringfenced Public Health Grant continue to be announced albeit these are generally confirmed outside of the Local Government Finance Settlement.

New Homes Bonus (NHB)

3.3.12 There were no announcements in the Chancellor's 2021 Spending Review regarding the ongoing NHB reform plans. The subsequent local government finance settlements in December 2021 and December 2022 confirmed a further one-year extension of NHB payments. The national quantum of funding available for redistribution from the NHB was again reduced as part of the settlement, due to increases elsewhere in the settlement being taken from this funding source. The previous intention of the Government was to abolish NHB. There remains uncertainty with regard to 2024/2025 and so at present the MTFP forecasts remain unchanged (i.e. it is assumed there will no funding through NHB).

Other Government Grant funding streams

3.3.13 Other Government grants are not anticipated to be confirmed until the Provisional Local Government Settlement is announced in December 2023. However, planning assumptions are currently:

- The Business Rates multiplier and Top Up grant has historically increased in line with inflation (CPI). At this stage the Government has not confirmed the approach for 2024/2025 and an increase of 6% has been assumed within the MTFP for 2024/2025.

- Housing and Council Tax Benefit Administration and Local Council Tax Support Administration Grant - No announcement on future funding has been made to date. The MTFP assumes a standstill settlement in cash terms for 2024/2025.

Schools Funding / Special Education Needs

3.3.14 The Education and Skills Funding Agency (ESFA) has announced provisional allocations through the schools, high needs and central services funding blocks. Nationally, funding for mainstream schools through the schools National Funding Formula (NFF) will increase by 2.7% per pupil in 2024-25 (compared to 2023-24). This means that funding through the schools NFF will be 8.5% higher per pupil in 2024-25, compared to 2022-23. High needs funding is increasing by a further £440 million, or 4.3%, in 2024-25, following the £970 million increase in 2023-24 and £1 billion increase in 2022-23.

As part of the settlement the minimum per pupil funding levels will be set at £4,655 per primary pupil, Secondary £6,050 per Secondary pupil (£5,824 per KS3 pupil and £6,389 per KS4 pupil). Other factors in the formula increase by 2.4% with the exception of Free School Meals which is to increase by 1.6%. 0.5% is applied to the funding floor to ensure every school attracts at least 0.5% per pupil-led funding.

Additional funding for teachers' pay was announced in July 2023, the Teachers Pay Additional Grant (TPAG) and provides an additional £482.5m in 2023-24, and £827.5m for 2024-25 for mainstream, special and alternative provision schools.

3.3.15 For 2024/2025, each local authority will continue to set a local schools funding formula, in consultation with local schools. Local authorities must again move their local formula factor values 10% closer to the NFF as a transition requirement. ESFA is continuing with its plans to move to a direct NFF in the future, which will determine school funding allocations directly at a national level, rather than local funding formulae. It is expected that the direct NFF will at the latest be in operation by the 2027/28 funding year.

3.3.16 ESFA published the provisional National Funding Formula allocations at local authority and school level in July 2023 with final DSG allocations to be published in December 2023.

3.4 Summary Funding Position Over Medium Term

3.4.1 Based on the assumptions outlined above, Government funding is forecast to increase by circa £11.183m in 2023/2024 based upon a number of assumptions. Some clarity may emerge following the Autumn Statement next month.

3.4.2 The position on Government funding beyond then is even more uncertain, with the continued assumption at this stage, that the Government will ensure at worst a broadly status quo position is maintained upon implementation of Fair Funding and any amended Business Rate Retention Scheme.

3.5. Provision for Spending Pressures and Commitments 2024/2025 to 2027/2028

3.5.1 In addition to funding changes, the Council must also plan for a range of spending pressures and commitments which are not funded by the Government.

3.5.2 It is proposed to reflect the following spending commitments in the budget planning, noting that in a significant number of cases specific cost details still require finalisation and will be subject to review and refinement throughout the budget setting process:

Pay Award

3.5.3 The pay award for the 2023/2024 financial year is still to be agreed. In February 2023 a formal pay offer for Local Government was made which proposed an increase of £1,925 on all NJC pay points. The offer equates to a pay increase of 9.42% for employees on the national pay point 2 and everyone on the NJC pay spine would receive a minimum 3.88% pay increase. Following ballot, all three Trades Unions have rejected the offer with the National Employers reaffirming their position that the offer is full and final. A pay award offer of 3.5% for JNC Chief Officer employees was accepted in May 2023. The pay award offer for Chief Executives has been rejected.

3.5.4 Provision for a 5% pay award was factored in to the 2023/2024 approved budget. Based upon the current pay offer, this would create an additional cost of c.£2.500m for the Council and its wholly owned companies, beyond that included in the Council's 2023/2024 revenue budget. This additional impact has been factored in to the MTFP for future years alongside an increased assumption of 3.5% for 2024/2025 given the forecast inflation levels and impact of increases in the national minimum wage and real living wage. The position will be kept under review throughout the budget process.

Energy

3.5.5 The impact of the unprecedent escalation of energy prices is continuing to have a significant impact on residents, businesses and public bodies. As set out in more detail in the Second Revenue Review report elsewhere on today's agenda, the Council as part of the 2023/2024 budget, provided for significant increases in respect of the Council's energy requirements, based on the forecast prices at the time. In recent months wholesale prices have reduced, leading to a revised, lower, forecast cost for 2023/2024 and into 2024/2025 but still significantly in excess of previous levels.

3.5.6 At present the MTFP provides for the latest forecast energy costs for 2024/2025 with the impact into the medium term continuing to be affected by many global factors.

General Contracts

3.5.7 There is upward cost pressure on the Council's services due to the impact on general costs and contracts as a result of escalating inflation. Current CPI inflation of 6.7% is expected to decline further for the remainder of the financial year and is forecast to remain above the Bank of England's target until May 2024 at the earliest.

3.5.8 Provision is included within budget planning for the impact of general contract inflation, including on contracts, any impact of the National Living Wage and significantly the Council's commitment to the Real Living Wage for contractors. This includes contract inflation for both Sunderland Care and Support (SCAS) and Together for Children (TfC), the costs of which fall on the Council's general fund.

3.5.9 Provision for inflationary increases where appropriate in discretionary fees and charges has been included within budget planning following review by Directorates. An updated schedule of fees and charges for 2024/2025 will be published prior to 30 September 2023 in line with the fees and charges policy.

3.5.10 A small number of minor pressures identified during routine budget monitoring have been included within pay and price provision.

Spending Pressures

Adults Demand Pressures

3.5.11 Pressures in both the NHS and Adult Social Care continue with the number of older people requiring care increasing. In Sunderland, it is forecast that the number of older people aged 65 years and over will rise from around 58,300 in 2023 to 69,500 by 2040 (an increase of 19%) and the number of people aged 80 years and over (i.e. those generally with the greatest care needs) is forecast to rise from around 7,600 in 2023 to 11,600 in 2040 (an increase of 53%). This gives a sense of the mounting pressure that Sunderland's ageing population is likely to have on the delivery of Adult Social Care.

3.5.12 The increasing longevity of the population continues to place a significant pressure on Adult Social Care budgets. In addition, client expectations and increasing demand to support clients with complex needs to enable them to maintain independent living requires reconfigured services and additional investment. The Council and its NHS partners are working together informally to integrate health and care and to develop plans collectively to enable the organisations to achieve more than they can individually to improve health and care outcomes and reduce health inequalities in Sunderland.

3.5.13 Demand for social care packages to support hospital discharges has increased significantly due pandemic, with more people who are leaving hospital needing nore complex care than before the pandemic. This is likely to continue given the national focus on delayed transfers of care and the Council's aim to maintain its high level of performance.

3.5.14 The National Living Wage represents a significant cost pressure for local authorities as service providers, particularly in the social care sector, endeavour to recover the impact of these increased costs through annual inflationary uplifts to contract prices. Prudent provision has been included within the budget planning in relation to assumed increases.

3.5.15 Provision for additional increased Adult Social Care costs of £1.000m relating to increasing need has been included in the MTFP for 2024/2025 and will be kept under review.

Children Services Pressures

3.5.16 TfC is forecasting in-year pressures of £5.7m largely driven by external factors in the main through increased costs arising from the increasing complexity of children's needs and finite capacity in the residential market which is driving higher prices being charged for accommodation alongside increased cost of home to school transport. Inflationary increases included in the MTFP will help to mitigate these cost pressures moving forward.

Capital Financing

3.5.17 The Council is ambitious and its investment in the regeneration of the city is a key element of how the City Plan will be delivered. It is important that the capital programme is affordable taking into account actual costs and the costs of financing expenditure, and that the ongoing costs of funding capital activity are included in the revenue budget. The capital programme is reviewed through the quarterly capital monitoring updates to Cabinet with reprofiling reported as necessary. The resultant impact on the capital financing requirement is reflected within the MTFP.

Summary Spending Pressures and Commitments

3.5.18 A summary of the spending pressures and commitments described in section 3.5 is set out below:

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Spending Pressures and Commitments					
Pay	9.598	4.172	4.284	4.399	**22.452**
Energy	(2.400)	0.500	0.500	0.500	**(0.900)**
Other Price and Contract Inflation (inc.Social Care)	11.849	8.320	6.835	7.116	**34.119**
Social Care Demand Pressures	1.500	1.500	1.500	1.500	**6.000**
Transport Levy	0.611	0.500	0.500	0.500	**2.111**
Other Service Pressures	0.924	0.000	0.000	0.000	**0.924**
Capital Financing	5.130	3.000	3.000	1.200	**12.330**
Pensions Actuarial Review	0.000	0.000	2.000	0.000	**2.000**
Total Spending Pressures and Commitments	**27.211**	**17.992**	**18.619**	**15.214**	**79.036**

3.6 Summary Resources, Pressures and Commitments Position

3.6.1 The total of changes in resources and spending pressures represents the estimated gross funding gap. At this stage there remain significant uncertainties which include:

- Government funding announcements, and the subsequent Local Government Finance Settlement confirmation for 2024/2025, to confirm the actual individual local authority allocations. This is normally announced in December;
- The ongoing impact of the global economy and inflation on the Council's costs and income, namely pay, energy, supplies and demand on services;
- Ongoing pressures around both Adult and Children's Social Care;
- Cost impact and Government funding for Adult Social Care reform;
- Confirmation of delivery of existing savings plans and the development and implementation of any new proposals;
- The impact of capital investment priorities both in terms of debt charges and any associated operational costs;
- The Government's plans and timescales in relation to Fair Funding and Business Rates retention impacting on the MTFP; and
- The general economic position and the direct impact on public sector finances.

3.6.2 The financial position over the medium term therefore remains uncertain. However, based on the best information available at this time, further significant reductions to budgets are required through to 2027/2028 based on a funding gap of £80.054m.

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Government Grant Changes	(11.183)	(1.000)	(1.020)	(1.041)	**(14.244)**
Total On-going Spending Pressures and Commitments	27.211	17.992	18.619	15.214	**79.036**
Initial Funding Gap	**16.029**	**16.992**	**17.598**	**14.173**	**64.792**

3.7 Locally Raised Income

Council Tax

3.7.1 The Localism Act provides for the provision of referendums to veto excessive Council Tax increases. This effectively places a limit on council tax increases and if local authorities exceed the Government's limit the public are able to vote to agree or veto any increase.

3.7.2 In recent years the Government's funding calculations have been based upon the assumption that local authorities will increase council tax by the maximum permitted amount, including continuing to levy the Social Care Precept that was introduced in 2016/2017.

3.7.3 Government have indicated that the limit for council tax increases for 2024/2025 will be 4.99% (2.99% core council tax and 2% re the Social Care Precept) As is customary the Government will consult on Council Tax referendum principles as part of the Local Government Finance Settlement.

3.7.4 Decisions on the level of council tax will be made as part of the final budget planning stages once all other funding factors are fully understood. However, at this stage given the financial challenges, the MTFP assumes an annual increase of 4.99%, comprising of an assumed 2.99% increase in core council tax and 2% for the Social Care Precept for 2024/2025.

Business Rates

3.7.5 Under the current Retained Business Rates funding arrangement, the Council retains locally 49% of increased income arising from growth in the Local Business Rates base (equally it shares the risk of any under achievement of income targets). The Council has a relatively low Business Rates yield with the Government providing a top-up grant.

3.7.6 Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. However, there remains uncertainty from appeals and avoidance tactics which can impact on the level of income achieved. The most significant opportunity for Business Rates growth arises through new developments, although growth in Business Rates in our three Enterprise Zones will be accounted for separately, as this is used to support the investment in those sites.

3.7.7 As with council tax, the impact of inflationary cost pressures and reduced consumer demand may impact on collectability and business survival as we move in to winter and then 2024/2025. The position will be kept under review and required adjustments reflected in the Budget Planning Framework as appropriate during the budget setting process.

3.8 Remaining Budget Gap

3.8.1 After taking into account the information in section 3 above, there is currently a funding gap of £16.029m (£25.029m before taking into account the planned use of £9m from the MTFP reserve) in 2023/2024, with a total gap of £64.792m over the MTFP period, 2024/2025 to 2027/2028. It should be noted that final proposals in relation to any Council Tax and Social Care Precept increase will be considered as part of the final budget setting proposals in February 2024. Based on current planning assumptions for council tax and business rates income, the overall MTFP position is set out in the table below:

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Spending Pressures and Commitments	27.211	17.992	18.619	15.214	**79.036**
Government Grant Change	(11.183)	(1.000)	(1.020)	(1.041)	**(14.244)**
Gross Funding Gap	**16.029**	**16.992**	**17.598**	**14.173**	**64.792**
Previously Agreed Savings Proposals	(0.179)	0.086	1.778	0.000	**1.685**
Collection Fund Impact - Council Tax	(6.356)	(5.720)	(4.674)	(4.835)	**(21.585)**
Collection Fund Impact - NNDR	0.833	(0.046)	(1.446)	(1.464)	**(2.123)**
Current MTFP Gap	**10.327**	**11.311**	**13.256**	**7.874**	**42.769**
Decrease / (Increase) in use of MTFP Reserve	0.000	0.000	1.400	7.600	**9.000**
Current MTFS Gap after agreed use of reserves	**10.327**	**11.311**	**14.656**	**15.474**	**51.769**

3.9 Approach to addressing the funding gap

3.9.1 The actions and savings proposals required to address the significant forecast budget shortfall will continue to be developed by Chief Officers in conjunction with Members and will be the subject of future budget update reports. The Council's prudent accruing of MTFP Reserves provides the opportunity to utilise reserves to help support the budget position whilst developing and delivering savings over a medium term time frame. The above figures include for the full use of the MTFP Reserve.

3.9.2 The Council's Efficiency Strategy was agreed by Council in February 2023. The Strategy set out a continual and iterative development of a programme of activity to address the gap taking into account the strategic vision of the Council's role in the future and reflecting the following key principles:

- Ensuring resources are targeted on statutory and front-line services and protecting key priority services with a focus on need rather than want;
- Managing demand - implementing strategies and policies that enable the Council to manage demand and facilitate those services which make a difference in the most effective way;
- Being customer focussed - using robust data and information to understand our resident's needs and maximising opportunities through use of technology for both our customers and internal users, so that people self-serve wherever possible thereby eliminating duplication and making activity more efficient;
- Redesigning and reshaping services to deliver required outcomes which maximises productivity;
- Strategic commissioning based on outcomes and using an intelligence-based approach to ensure a sound evidence base for commissioning decisions and effective commissioning arrangements;
- Ensuring opportunities for collaboration with partners to deliver key outcomes that matter to the city;
- Ensuring that our internal, support services respond appropriately to the changing shape and size of the Council;
- Involving the Community – residents, businesses, partners, voluntary sector to ensure best outcomes for the city; and
- Continued focus on regeneration and inward investment in order to grow business rates and council tax income, leveraging funding to maximise additional income sources and commercial opportunities.

3.10 Reserves and Balances

3.10.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when considering the budget requirement.

3.10.2 In accordance with the approach adopted to date, all earmarked reserves will be revisited as part of the budget process to ensure they still accord with the Council's priorities and overall funding position.

3.10.3 A Statement of General Balances is attached at Appendix 1a with the current schedule of Earmarked Reserves at Appendix 1b.

4. Budget Planning Framework 2024/2025 to 2027/2028

4.1 It is proposed the budget planning framework as set out below is adopted:

- Budget planning to be based on the high-level position outlined at section 3 and updated in light of the Local Government Settlement in December 2023;
- Provision for spending commitments be included at this stage on the basis set out at section 3 and kept under review;
- Spending priorities be considered in line with service improvement plans and in light of available resources during the budget process;
- Budgets be prepared on the basis that all spending pressures not specifically identified in this report as commitments be accommodated within Directorate existing budget envelopes;
- All commitments against reserves and general balances as set out in Appendix 1 to be reviewed and updated throughout the budget process; and
- The position regarding Council Tax and Social Care Precept to be considered as part of the budget process.

4.2 In accordance with the budget planning framework agreed for 2023/2024 the budget process for 2024/2025 will be completed on the basis that the savings plans in the 2023/2024 budget will be achieved, or an alternative must be delivered on an ongoing basis.

Capital Strategy

4.3 The annual update of the Council's Capital Strategy has been carried out informed by the latest capital planning requirements and priorities as set out in the City Plan. The updated strategy is provided at Appendix 3.

5 Workforce Planning Implications

5.1 At this stage, given the remaining budget gap for 2024/2025 and future years it is anticipated that proposals may have a workforce planning implication. Any subsequent staffing reductions will be managed through the Council's Redundancy Policy and Procedure as necessary. It should also be noted that officers are continually reviewing resource allocations to ensure that staffing arrangements are fit for purpose.

5.2 At this stage it is proposed that any cost of redundancy payments and the release of pensions as required by the LGPS Regulations will be met from a combination of utilisation of capital receipts flexibilities and from within the overall corporate resource position. This position will be kept under review and updated as part of the budget proposals to Cabinet.

6 Budget Consultation / Communication Strategy 2024/2025

6.1 Communication, engagement and consultation are important parts of medium-term financial planning. A range of activity informs this process and has influenced the City Plan and the MTFP.

6.2 Each year, the scale and nature of the proposals determine the approach to communication and consultation, which has recently also needed to take into account the practical aspects of consultative activities in light of the Covid pandemic. Although further work is required to generate significant savings for 2024/2025 and beyond, the budget consultation in 2023 for the 2024/2025 budget will focus on feeling informed, the priorities within the City Plan and views on how Council budget resources are prioritised and allocated.

6.3 Clear messages focusing on the longer-term budget challenge, the scale of what we do and how the money is spent will accompany this consultation. This will be consistent with the Council's successful approach to resident engagement.

6.4 Existing networks will be utilised to communicate with both geographic communities and communities of interest. There will be communications with a range of partners and stakeholders including Trades Unions, Chamber of Commerce, Sunderland Business Innovation District (BID), the wider business community, employees, and the city's Independent Advisory Groups. Communications with these groups will be tailored to their interests, for example, economic regeneration, neighbourhood services and adult services.

6.5 Scrutiny Coordinating Committee will be consulted on the results of the budget consultation.

6.6 Feedback from consultation with Scrutiny Coordinating Committee, Trades Unions and Business representatives will be considered in framing the final budget proposals to be submitted to Cabinet in February 2024.

7 Crime and Disorder

7.1 Consideration has been given to the options for savings about their potential impact on crime and disorder, (Section 17 Duty). No existing proposals have been identified as having a negative impact.

8 Integrated Impact Assessment

8.1 In accordance with the Council's new approach to assessing predicted impacts of activity, Integrated Impact Assessments (IIAs) will be applied to the budget setting process. The new IIA tool enables the Council to give due regard to the impacts of activity on:

i. Equality and Human Rights, including ensuring the Council meets the three aims of the Public Sector Equality Duty (Appendix 2);
ii. Socio-economic and digital inequalities;
iii. Population health and health inequalities;
iv. Low carbon and sustainability; and
v. Community wealth building, including the duty on local authorities to consider the impact of all their functions and decisions on crime and disorder in their local area.

8.2 Each service must consider the predicted impacts of any new proposals brought forward to meet the future budget gap and complete an IIA. Completed IIAs will be presented with future Cabinet reports, along with a summary of the cumulative predicted impact of the proposals.

8.3 Members must understand the implications of the proposals outlined in the IIAs, as having regard to them will assist members in understanding the impact of decision and in complying with the Public Sector Equality Duty when considering the proposals.

9 Suggested Reasons for Decision

9.1 Adoption of the Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2023/2024.

9.2 To enable constitutional requirements relating to the development of the Revenue Budget to be met.

10 Alternative Options to be considered and recommended to be rejected

10.1 There are no alternative options recommended for approval.

Background Papers

Revenue Budget and Proposed Council Tax for 2023/2024 and Medium Term Financial Plan (22nd February 2023 Council).

Appendix 1a

Statement of General Fund Balances

	£000
Balances 31st March 2023	**12.000**
Use of / Addition to Balances 2023/2024	
Contribution to Revenue Budget	0.000
Estimated Balances 31st March 2024	**12.000**

Appendix 1b

Major Earmarked Reserves

Reserves	Purpose of the Reserve	Opening Balance 01.04.2023 £m	Forecast Movement in 23/24 £m	Opening Balance 01.04.2024 £m	Forecast Movement in 24/25 £m	Opening Balance 1.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 1.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 1.04.2027 £m
General Fund	General Fund of the Council	12.000	0.000	12.000	0.000	12.000	0.000	12.000	0.000	12.000
School Balances	Balances held by schools under a scheme of delegation	7.188	(1.795)	5.393	(1.514)	3.879	(1.500)	2.379	(1.500)	0.879
Earmarked General Fund Reserves – Capital										
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	9.033	(8.934)	0.099	0.000	0.099	0.000	0.099	0.000	0.099
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.	5.642	(2.951)	2.691	0.000	2.691	(0.050)	2.641	(2.641)	0.000
Section 106 Reserves	Under Section 106 of the Town and Country Planning Act 1990, developers make financial contributions to the Council relating to affordable housing, public open spaces including allotments and locally equipped play parks, educational facilities, highways and public transport improvements, sports and recreational facilities and environmental improvements.	11.672	0.351	12.023	(3.311)	8.712	(1.750)	6.962	(1.750)	5.212
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	1.437	(1.437)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.	0.730	(0.423)	0.307	(0.307)	0.000	0.000	0.000	0.000	0.000
Culture Development	To support a range of cultural developments in the city centre, utilising smart cities technology and immersive technologies.	3.000	0.000	3.000	(3.000)	0.000	0.000	0.000	0.000	0.000
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	2.078	(0.415)	1.663	0.028	1.691	0.185	1.876	0.228	2.104

Appendix 1b (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2023 £m	Forecast Movement in 23/24 £m	Opening Balance 01.04.2024 £m	Forecast Movement in 24/25 £m	Opening Balance 1.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 1.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 1.04.2027 £m
Earmarked General Fund Reserves – Revenue										
Medium Term Planning Smoothing Reserve	This reserve has been established to address any potential impact arising from increased risk and uncertainty with the Business Rate Retention Scheme. It is being used to smooth the impact of government funding uncertainties.	34.601	(9.000)	25.601	(9.000)	16.601	(9.000)	7.601	(7.601)	0.000
Strategic Regeneration Reserve	A reserve to support the Council's regeneration ambitions, specifically to smooth any revenue impact of projects until they become self-sustaining.	10.557	(0.500)	10.057	(2.350)	7.707	(0.800)	6.907	(0.300)	6.607
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	5.558	(0.405)	5.153	(4.108)	1.045	(1.045)	0.000	0.000	0.000
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	6.236	0.000	6.236	0.000	6.236	0.000	6.236	0.000	6.236
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	4.121	(0.771)	3.350	(0.800)	2.550	(0.800)	1.750	(0.750)	1.000
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.	4.499	(0.460)	4.039	(1.000)	3.039	(1.000)	2.039	(1.000)	1.039
Public Health Grant	Ringfenced Public Health grant funding, to deliver future public health initiatives.	6.277	(1.075)	5.202	(2.880)	2.322	(2.322)	0.000	0.000	0.000
Smart Cities	This reserve was established to set aside revenue funding to cover 8-10 years, to support 5G and Wireless connectivity within the city.	3.894	(0.500)	3.394	(0.500)	2.894	(0.500)	2.394	(0.500)	1.894
Streetscene and Open Space	A reserve to enhance the city's recovery from the covid pandemic and ensure that the full benefit can be made of the regeneration activities across the city. This reserve will fund a range of streetscene and open space projects.	6.762	(2.993)	3.769	(1.932)	1.837	(1.837)	0.000	0.000	0.000
HCA Stadium Park	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	3.109	0.000	3.109	0.000	3.109	0.000	3.109	0.000	3.109
Transformation Reserve	To support the changes that are likely to be required over the next 12-18 months to address financial pressures and MTFP challenges.	1.715	(1.202)	0.513	(0.513)	0.000	0.000	0.000	0.000	0.000
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	2.353	(0.182)	2.171	(0.100)	2.071	(0.100)	1.971	(0.100)	1.871
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	2.151	(0.692)	1.459	(0.587)	0.872	(0.368)	0.504	(0.229)	0.275

Appendix 1b (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2023 £m	Forecast Movement in 23/24 £m	Opening Balance 01.04.2024 £m	Forecast Movement in 24/25 £m	Opening Balance 1.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 1.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 1.04.2027 £m
Low Level Family Support	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.	3.496	(1.751)	1.745	(1.344)	0.401	(0.282)	0.119	(0.119)	0.000
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the collection fund surplus benefit into future years.	1.533	0.000	1.533	(1.533)	0.000	0.000	0.000	0.000	0.000
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.	1.296	(0.250)	1.046	(0.250)	0.796	(0.250)	0.546	(0.250)	0.296
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.	1.253	0.000	1.253	0.000	1.253	0.000	1.253	0.000	1.253
Events	Reserve established to support a bid to secure a multi-year arrangement with British Triathlon to host triathlon events in the City.	1.200	(0.550)	0.650	(0.200)	0.450	(0.200)	0.250	(0.200)	0.050
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	0.997	(0.115)	0.882	(0.105)	0.777	(0.105)	0.672	(0.105)	0.567
House Sale Income	The reserve relates to the sale of client's homes that will be utilised to support future support needs of those clients.	1.390	(0.204)	1.186	(0.204)	0.982	(0.204)	0.778	(0.204)	0.574
Health and Social Care Reserve	Additional external income from in-year Health funding to support health and social care services in Sunderland in the short to medium term.	10.520	(5.768)	4.752	(2.896)	1.856	(1.803)	0.053	(0.053)	(0.000)
Energy and General Inflation	Reserve established in response to significant inflationary pressures expected to impact council services in the short to medium term	9.371	(1.197)	8.174	(4.500)	3.674	(3.674)	0.000	0.000	0.000
Member Recovery Fund	Members Covid Response fund	1.000	(1.000)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Earmarked Revenue Reserves	Numerous small revenue reserves less than £1m which are set up for specific purposes.	20.562	(8.742)	11.820	(4.501)	7.319	(1.615)	5.704	(0.974)	4.730
Total General Fund Reserves		**197.231**	**(52.961)**	**144.270**	**(47.407)**	**96.863**	**(29.020)**	**67.843**	**(18.048)**	**49.795**
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	10.743	(2.586)	8.157	(2.382)	5.775	(1.561)	4.214	(4.214)	0.000
Capital Grants Unapplied	Balance of capital grants held pending expenditure on capital programme.	5.701	(5.701)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total Usable Reserves		**213.675**	**(61.248)**	**152.427**	**(49.789)**	**102.638**	**(30.581)**	**72.057**	**(22.262)**	**49.795**

Appendix 2

Equality and Budget Proposals

1 Equality in Decision Making

1.1 The Equality Act 2010 places a specific duty on Local Authorities through the Public Sector Equality Duty. The three aims of the equality duty are to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act;
- Advance equality of opportunity between people who share a protected characteristic and those who do not; and
- Foster good relations between people who share a protected characteristic and those who do not.

1.2 Public authorities are required to give 'due regard' to the three aims of the duty when making decisions. Understanding the effect of decisions on people with different protected characteristics is an important part of complying with the general equality duty. Due regard means:

- consider the need to remove or minimise disadvantage or to meet particular needs;
- think about how to encourage participation in public life; and
- tackle prejudice and promote understanding.

2 How Integrated Impact Assessment (IIA) informs the budget-setting process

2.1 Service proposals for savings are reviewed using the Integrated Impact Assessment (IIA) screening tool to determine whether an IIA is required. Where IIA's are required, the tool asks a number of questions that supports the Council to give 'due regard' to equality and wider considerations. An IIA will be applied proportionally, considering service risk, opportunity and ensuring the needs of the most vulnerable groups are considered.

2.2 IIAs prompt the Council to:

- **Be intelligence, insight and evidence led** - using data and intelligence to shape planned activity;
- **Assess impact** - assess the potential positive, negative and neutral impacts of activity;
- **Be equitable** - recognise that each person, or community, has different circumstances and allocate resources and opportunities needed for them to achieve an equal outcome;
- **Be innovative and bold** - maximise opportunities to achieve additional benefits from planned activity and acknowledge and mitigate, where possible, any negative impacts;
- **Work collaboratively** - work together across the council, and with our partners and communities; and
- **Demonstrate due regard has been given to key Council commitments** - ensuring the predicted impacts of decisions are documented to enable transparent and evidence-based decision making.

2.3 Activity that promotes equity, reduces inequalities and contributes to improved outcomes, has the potential to reduce financial burdens on the public sector in the longer term. Consideration of equality issues as well as wider impacts on the city must influence our decisions, including how we act as employers; how we develop, evaluate and review policy; how we design, deliver and evaluate services, and how we commission and procure from others.

2.4 The IIA tool provides a drop-down menu to indicate what the impacts will be for various groups, including those with protected characteristics, and other vulnerable groups / people with complex needs. There is space in the IIA to describe:

- the impact the activity will have;
- how to maximise positive impacts;
- how you propose to mitigate any negative impacts; and
- how you will seek information where you are uncertain of the impact.

Officers are asked to acknowledge potential negative impacts and consider how they can be mitigated or eliminated, but it is recognised that sometimes this is not an option. Nevertheless, demonstrating that due consideration has been given is a vital part of the process.

3 Key Messages for 2024/2025

3.1 For 2024/2025 financial planning, there are no specific savings proposals brought forward to be considered in this report. However, as plans are identified to address the budget gap, equality implications will be part of the considerations.

3.2 As the report outlines above, there are a number of national and local issues that have the potential to impact on equality in the city, namely:

- The need for a long-term sustainable solution for social care;
- The possibility of reduced funding for Public Health following the implementation of the Fair Funding Review; and
- Focus on the cost of living crisis, high levels of inflation and associated impacts.

As our local response to these issues is determined, IIAs will need to be applied and equality considerations must be included. Future proposals in these areas must be done in a way that makes the most of opportunities to reduce inequalities in our city whilst mitigating negative impacts as far as possible.

4 CONCLUSIONS

4.1 The Council continues to seek to meet its obligations in relation to equality and diversity and has procedures in place at both a general and budget specific level to incorporate equality and diversity issues into decision making processes and the assessment of proposals. The application of IIAs is integral to the Council’s approach

4.2 Services and directorates are responsible through IIAs for ensuring equality considerations are integral to their functions, and ensuring these considerations are presented to decision makers at the appropriate junctures.

Appendix 3

CAPITAL STRATEGY UPDATE - 2023/2024

1. INTRODUCTION

1.1 Background

1.1.1 The overarching aim of the Council's Capital Strategy ("the Strategy") is to provide a framework within which the Council's capital investment plans will be prioritised and delivered in line with the City Plan (2019 – 2035) with an overall ambition that by 2035 Sunderland will be a connected, international city with opportunities for all. This reflects the ongoing commitment to ensure the Council puts residents and customers at the heart of everything we do, reflecting the diversity of the city.

> *The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.*

1.1.2 The Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management in the Public Service Code of Practice were updated by the Chartered Institute of Public Finance and Accountancy in December 2021.

1.1.3 The Prudential Code refers to the need for a clear and integrated treasury strategy which, by the application of set prudential and treasury management financial indicators enables the Council to assess and monitor the prudence, affordability, and sustainability of the capital programme.

1.1.4 The updated Prudential Code includes the following as the focus of the substantive changes:

- The provisions in the code, which prevent the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.
- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.
- A new requirement has been added so that capital strategies are required to report investments under the following headings: service, treasury management and commercial investments.

1.1.5 The Council's Capital Strategy has been prepared to provide a framework within which the Council's capital investment plans will be prioritised and delivered, ensuring it adheres to the requirements of the Prudential Code. This is covered over the following key areas:

- Capital expenditure including governance, monitoring, priorities, pipeline, and longer-term planning;
- Funding approach;
- Debt, borrowing and treasury management;
- Commercial activity;
- Other long-term liabilities; and
- Knowledge and skills.

1.1.6 The Strategy covers the Council as well as Together for Children Limited and Sunderland Care and Support Limited. Given the different relationship with Siglion and its development portfolio, not all of its activity is covered by this Strategy.

2.0 OBJECTIVES OF THE CAPITAL STRATEGY

2.1 The key objectives of the Capital Strategy are to:

- provide a clear set of objectives and a framework within statutory legislation that enables proposed new capital expenditure to be evaluated to ensure that all new capital investment is targeted at addressing the economic and social challenges that Sunderland faces as set out in the City Plan, so that the city and its people can achieve their full potential;
- ensure prioritisation of projects that focus on delivering a number of the commitments contained in the City Plan;
- set out how the Council identifies, programmes, and prioritises capital requirements and proposals arising from business plans submitted through an appraisal mechanism;
- provide a long-term view of capital expenditure plans and risks faced by the Council over the life of assets;
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area, whilst minimising the ongoing revenue implications of any such investment;
- provide a basis for the projection of external debt and provision for repayment of that debt over the life of the underlying debt based on the approved capital programme and capital resources available;
- consider the resources available for capital expenditure over the longer term;
- ensure the strategy has an overall balance of risk on a range of investments over timespan, type of investment and rate of return, confirming that knowledge and skills available to the Council are commensurate with the Council's investment risk appetite; and
- establish effective arrangements for the management and monitoring of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.

2.2 Capital Priorities

The Council's Capital Priorities are aligned to the City Plan "Sunderland 2019-2035" Themes:

- Sunderland will be a **dynamic smart city** with more and better jobs, a low carbon economy and a great choice of housing. It will be a leading digital city, deploying smart and sustainable technologies for the benefit of residents, business, and visitors;

- Sunderland will be a **healthy smart city** where people will live healthier, independent lives for longer. It will be a clean and attractive city with great transport and travel links; and

- Sunderland will be a **vibrant smart city** with more resilient people feeling safe in their homes and neighbourhoods. There will be a range of opportunities for people to participate in their communities and in cultural events and activities.

In addition, the continuing priority for the Council is on serving all of our residents in Sunderland with the best possible services and support, with a focus on long term benefits for our children and young people beyond 2035.

(a) Dynamic Smart City

The Council is focused on securing Sunderland's long-term future. This will involve a lower carbon city with greater digital connectivity for all, more and better jobs, more local people with better qualifications and skills, a stronger city centre with more businesses, housing, and cultural opportunities and more and better housing.

A range of actions, that reflect the area within which the Council can most positively deploy its capital resources, form the core focus of this aim. In doing so, these contribute towards Council funding in the longer term through additional council tax, business rates or land sale receipts, so contributing to the future sustainability of Council services.

A lower carbon city with greater digital connectivity for all - The focus within this commitment is on providing world-class digital infrastructure that creates benefits for individuals, communities and businesses, including employment growth through the digital sector, and smart living through smart homes. There is also the opportunity to transform our travel patterns, thereby reducing overall CO_2 emissions. The Council has set a target of becoming 'Carbon Neutral' by 2030.

More and better jobs – Overall employment for Sunderland was 72.3% April 2022 to March 2023, which is 1.5 percentage points above the North East position at 70.8%. Our focus remains on increasing the number of well-paid jobs in our city by promoting growth in key employment sectors including automotive and advanced manufacturing, financial and customer services, digital and software, professional services in the city centre, and port related activity.

More local people with better qualifications and skills – The City Plan sets out the intention to ensure that residents have the qualifications and skills to enable them to secure good jobs that match the needs of employers in key sectors in the city. Plans focus on tackling barriers for those least able to access employment and ensuring that more local people are able to benefit from a stronger economy and supporting and enabling apprenticeship and work experience opportunities focused on skills and experience for the local economy.

A stronger city centre with more business, housing, and cultural opportunities – The City Plan sets out the intention that Sunderland city centre will drive transformational economic growth with Riverside Sunderland demonstrating the investment ambition and commitment to being a smart city. There is a need to attract new jobs to the city to increase the number of people employed in the city centre and encourage more homes to be built in the city centre. Plans, therefore, focus on a range of projects to promote wider city centre regeneration. Through planning responsibilities, and the development of the cultural offer, work will continue to promote a desirable and vibrant retail and leisure offer.

More and better housing – The focus under this City Plan commitment is to ensure that Sunderland offers the opportunities that families and individuals need to achieve their ambitions – with a housing offer that reflects the homes that people aspire to live in and positively impacts on the city's population, demographics and migration. This includes large family, and high-status homes through the delivery of key housing sites. Alongside this are commitments ensuring sufficient affordable housing whilst also bringing empty homes back into use, ensuring that properties are safe and free from serious hazards and that there is reduced risk of homes flooding.

(b) Healthy Smart City

Reduced health inequalities enabling more people to live healthier longer lives – One of the key intentions of the City Plan is the need to ensure that health and wellbeing outcomes in Sunderland are significantly improved, particularly in relation to overall healthy life expectancy. Plans focus on having a positive impact on health outcomes through all key life stages, particularly for our most disadvantaged residents, including those living in deprived areas, systematically addressing health inequalities, and mitigating the impact of COVID-19, with the aim of enabling healthier longer lives. Schools and businesses will be supported, where possible, to be enablers in improving the health of the working population and children and young people through initiatives such as Better Health at Work Awards and the Active Sunderland Schools Charter.

Access to equitable opportunities and life chances – This commitment is about taking a life course approach starting with the early stages of preconception to early years and adolescence to identifying key opportunities for minimising risk factors and enhancing protective factors through evidence-based interventions including support to reduce smoking and harmful alcohol consumption in pregnancy, new birth and early years services to ensure children have a good level of development and support to children and young people (including cared for children and care leavers) to enable equal chances of success at key educational stages (including reducing teenage pregnancy). Thereby tackling inequalities that have been widened by the COVID-19 pandemic. In the working age population and elderly, inequalities that exist across the city will be sought to be addressed through a community asset-based approach.

People enjoying independent lives – Although 98% of people aged 18+ in the city live independently (without social care services) based on mid-year estimates, we remain committed to ensuring people in the city can enjoy independent lives. Through our Smart City approach, we are using technology to create a Smart Health City, with digital solutions to everyday problems for assisted living that gives people more control over their care arrangements with the freedom to live at home and retain their independence for longer. Working with our partners, we aspire to reducing the number of emergency admissions to hospital due to falls for those aged 65+, and promote Ageing Well for our older residents in the city.

Great transport and links with low carbon and active travel opportunities for all – The emphasis within the City Plan is about ensuring that people can move around the city with ease through improved transport routes, well maintained highways and reduced journey times. Transport connectivity (including bus, rail and other modes of transport) with key employment sites is important for both employment and for the transport of goods and products. Good transport links to the city centre and the sub-centres of Washington and Houghton, and for connectivity to all communities are also important. Active travel will also be promoted by developing safe and user-friendly cycle routes, footpaths and pedestrian routes as well as support to maximise their use.

A cleaner and more attractive city and neighbourhoods – The focus under this City Plan Commitment is on promoting environmental responsibility to achieve a cleaner and more attractive city through a community responsibility plan supporting and enabling community clean-ups and place based volunteering, issuing sanctions where appropriate; and improving the amount of household waste sent for reuse, recycling or composting. Low levels of litter, dog fouling, graffiti and fly tipping are also important to residents. Residents will continue to be enabled to enjoy the city's open spaces by the maintenance of Green Flag Award parks and Blue Flag beaches.

(c) Vibrant Smart City

More resilient people - We will seek to enable families to be resilient and resourceful to respond to challenges and achieve the best possible outcomes for their children with a focus on families requiring early help with children in need, with children subject to a child protection plan; and with children who are looked after and care leavers. We will seek to build resilient communities by mitigating the wider impacts of COVID-19 and helping residents who experience hardship to access support.

More people feeling safe in their homes and neighbourhoods– This commitment relates both to people feeling safe from crime and supporting vulnerable adults who use our services to feel safe. We will work in partnership with other key agencies across the city to reduce the incidence of recorded crime, first-time offending, and young people re-offending. We are also committed to disrupting criminal and anti-social behaviour through intervention and enforcement activity whilst promoting prevention.

More residents participating in their communities – This commitment is about providing residents, including children and young people, with opportunities to engage with and participate in their communities –including supporting people to participate in an expanded and diversified range of volunteering platform, events and cultural programme, and other activities. We engage residents in conversations about local areas through the 'Let's Talk' programme and annual Residents Survey, and children and young people specifically through participation activity. We are working in partnership with the Voluntary and Community Sector to increase their capacity to support communities.

More people visiting Sunderland and more residents informing and participating in cultural events, programmes, and activities –Post the restrictions due to the COVID pandemic, with partners we are re-building the city's cultural offer for visitors and residents through investment in our facilitated events programme and re-opened cultural venues. As well as recognising the value of our coast and beaches as visitor attractions, we are providing a balanced portfolio of core events delivered by the Council along with partners, complimented by events led by others. We will also maximise the opportunities for health benefits from our events programme.

(d) Organisational Health

As an organisation we are continuing a challenging but exciting cultural change journey. The Council needs to continually improve and be innovative in our approach to counteract reducing budgets and financial uncertainty. We are committed to ensuring we have a productive healthy workforce, maintaining a lower level of sickness absence. We continue to enable greater agile and paperless working through the adoption of digital technologies and will continue to enable more digital interaction with our customers thereby promoting self-serve. The Council must focus on intelligence-based decision making to ensure that services are provided that represent value for money and 'invest to save' projects will be utilised where necessary to achieve this. We need to support innovation and collaborative ways of working to make sure the people in greatest need are supported. More must be done to address demand pressures and build individual and community resilience.

The Council will seek to maximise the return on investment through:

- Generating savings or supporting avoidance of additional revenue costs;
- Growing the Council's income base i.e., fees and charges, business rates and council tax;
- Seeking a commercial return where appropriate; and
- Generating and supporting funding opportunities which encourages and levers in private sector and other investment to the city.

The global pandemic and now the economic impact of geo-political factors has clearly impacted upon the City's residents, businesses, and visitors. Work to deliver the ambitions set out in the City Plan will be continually monitored and is critical to the City's recovery.

2.3 Partnership working and investment opportunities

2.3.1 The Council will work with key partners to review physical and technological assets on a city-wide basis and maximise the potential benefits and opportunities of wider capital and infrastructure planning (including health sector partners, the College, University and Gentoo).

2.3.2 The Council will ensure that strong partnership arrangements are in place to enable truly collaborative working with regional partners. This includes the key partnerships of the Tyne and Wear City Region (including the LA7), North East Combined Authority, North of Tyne Combined Authority, and the North East Local Enterprise Partnership (LEP) together with any subsequent arrangements aligned to the devolution agenda.

3.0 CAPITAL EXPENDITURE

3.1 The definition of capital expenditure under the Local Government Act 2003 is

> *'expenditure that results in the acquisition of, or the addition of subsequent costs to assets (tangible or intangible) in accordance with proper practices'*

3.1.1 To meet the definition of capital, expenditure will only be classified as capital expenditure if the expenditure is directly attributable to an asset and:

- Results in the acquisition, construction, or improvement of an asset;
- Is separately identified and measurable; and
- Results in a measurable benefit to the Council for a period in excess of 12 months.

3.1.2 In addition, the Local Government Act 2003 allows the following type of expenditure to be classified as capital expenditure:

> *'the giving of a loan, grant or other financial assistance to any person, whether for us by that person or by a third party, towards expenditure which would, if incurred by the authority be capital expenditure'*

3.1.3 Whether acquired or self-constructed, fixed assets should initially be measured at cost. Only costs that are directly attributable to bringing the asset into working condition for its intended use should be included. Such costs should be capitalised only for the period in which the activities that are necessary to get the asset ready for use are in progress.

3.2 Governance of the Capital Programme

3.2.1 To ensure that available resources are allocated optimally and deliver value for money, capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the medium-term financial plan (MTFP).

3.2.2 The Council has mechanisms in place which seeks to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Council's priorities. These include:

- Democratic decision-making and scrutiny processes which provide overall political direction and ensure accountability for the investment in the capital programme. These processes include:

    - Full Council, which is ultimately responsible for approving the Capital Strategy, the Treasury Management Strategy, and the Capital Programme;
    - Cabinet, which is responsible for setting the corporate framework and political priorities to be reflected in the Capital Programme and recommends projects for inclusion in the Capital Programme. Cabinet also monitors delivery of the capital programme through the quarterly capital and treasury monitoring process;
    - Scrutiny Coordinating Committee, which considers the programme of new starts for inclusion in the Capital Programme and reviews the MTFP to provide challenge, advice, and commentary to Cabinet where appropriate; and
    - All schemes which progress follow the requirements of the constitution and financial regulations including Financial Procedure Rules and Procurement Procedure Rules.

- Officer Groups which bring together a range of service interests and professional expertise. These include:

    - The Chief Officer Group (COG) which has overview responsibility for the development, management, and monitoring of the capital programme; COG acts as the Capital Strategy Board and provides a framework within which the Council capital investment plans will be scrutinised and prioritised, and delivery of approved plans will be monitored;
    - Directorate Management Teams overseeing and proposing business cases for investments prior to finance and legal due diligence for submission to the Capital Strategy Board; and
    - Specific Programme and Project boards with wide ranging membership are also created as appropriate to oversee significant capital development projects as required.

3.3 Capital Programme 2023/2024 – 2026/2027

The current approved capital programme commits substantial resources over the four years to 2026/2027 and can be viewed at Capital Programme 2023/2024 - 2026/2027

A quarterly financial review of the Capital Programme is reported to Cabinet each July, October, and January outlining any in year variations, together with an outturn report in June.

3.4 Process for Prioritising New Capital Proposals

The annual process for identifying and prioritising new capital requirements involves a cross-section of stakeholders. The stages and roles within this process are outlined below:
Stage 1 - Identification and Prioritisation of Proposals within Directorates

Executive Directors, through discussion with Cabinet Portfolio holders, are requested to identify projects which are of high priority to their service area and are aligned with the City Plan. The supporting business case provides a clear justification for the proposal and sets out the rational for its priority level. In addition, Executive Directors undertake a full review of the existing capital programme to confirm that planned projects remain a priority for the Council.

Stage 2 - Initial Review and Challenge

The Finance service undertakes an initial review and challenge of the proposals received to ensure completeness and robustness of submissions.

Stage 3 - Corporate Strategic Review and Prioritisation

- Submissions are reviewed and challenged by the COG Capital Strategy Board who assess the relative priority of the submissions from a strategic perspective, aligned to the corporate priorities; and
- The COG Capital Strategy Board recommend the projects to be taken forward after taking into account the total resources available and any consequences on the MTFP budget planning process.

Stage 4 - Member Review and Challenge

- Cabinet considers for recommendation to Council the prioritised proposed new start projects;
- Scrutiny Coordinating Committee reviews and challenges the recommendations from Cabinet;
- Cabinet considers the comments from Scrutiny Coordinating Committee and makes a final recommendation to Council; and
- Council considers the recommendations from Cabinet and approves the capital programme for the following 4-year period.

3.5 Monitoring of the Capital Programme

3.5.1 Monitoring of the programme includes expenditure profiling and the delivery against timetable for each project. This, in turn, informs the debt cost of schemes and the associated revenue impacts.

3.5.2 Schemes are regularly monitored by project managers, supported by finance colleagues, which informs quarterly reports to Cabinet that identify changes to the capital programme including:

- New resource allocations.
- Slippage and acceleration in programme delivery;
- Schemes reduced or removed;
- Virements between schemes to maximise delivery and outcomes;
- Revisions to expenditure profile and/or funding to ensure ongoing revenue costs are minimised; and
- Revisions to timelines and significant changes in anticipated outcomes.

3.5.3 Non-financial outputs from the Capital Programme are monitored through the City Plan performance, capturing the wider benefits of schemes over a longer timeframe.

3.6 Longer Term Planning

3.6.1 The current capital planning cycle duration is 4 years, which covers the short to medium term capital investment requirements of the Council. The Prudential Code requires the Capital Strategy to consider the Council’s longer-term capital investment requirements, although it does acknowledge that when taking a long-term view of assets, projections in later years are likely to involve a high degree of estimation.

3.6.2 The Council’s capital programme, as approved in February 2023 and taking into account any subsequent approved variations, covers the period through to 2026/27 and totals £521.090m. In addition, new capital scheme proposals to commence from April 2024 are currently being developed and are to be considered by Cabinet and then full Council in February 2024 prior to their commencement.

Table 1 below provides a high-level minimum estimate of the capital requirement over the subsequent 15-year period commencing 2027/2028. The totals provided reflect the recurring elements of the capital programme necessary to maintain the status quo of asset groups. Non-recurring projects / initiatives, such as regeneration projects, are excluded from this analysis given their one-off nature.

The recurring elements of capital investment required to maintain service delivery are grouped into a number of asset areas, these are:

- Highways – Improvement and strategic maintenance of the Council's major highway assets including roads, bridges, footways, and traffic signal equipment;
- Property – Improvement and strategic maintenance of Council buildings to support front line services;
- Vehicles – Acquisition of vehicles, such as refuse collection vehicles and large specialist vehicles, to support front line services; and
- ICT and Connectivity – Improvement and replacement of the Council’s ICT infrastructure and devices to directly support Council services across the city.

Any further regeneration initiatives following planned feasibility assessments and any other emerging schemes not covered by the above will be developed and appraised in line with the City Plan priorities and reported to Cabinet for consideration at the appropriate time.

Table 1 – Long Term Capital Requirement Forecasts beyond Capital Programme Period

Asset Group	Forecast Requirement 5 Years (2027/28 – 31/32)	Forecast Requirement 10 Years (2032/33 – 41/42)
	£m	**£m**
Highways (1)	10.000	20.000
Property (2)	13.750	27.500
Vehicles (3)	20.000	40.000
ICT (4)	2.500	5.000
TOTAL	**46.250**	**92.500**

Assumptions;

(1) Highways – £2.000m per annum rolling programme of planned maintenance works and improvements. This estimate does not include investment supported by external funding from the Department of Transport, this has historically totalled c. £5m per annum for the Council and is anticipated to continue at this level.

(2) Property - £2.750m per annum rolling programme of planned property capital maintenance.

(3) Vehicles - £4.000m per annum rolling fleet refresh programme (based on 10-year full replacement programme estimate of £13m)

(4) ICT and Connectivity – £0.500m per annum rolling refresh of user devices and core infrastructure.

Actual budget allocations will be determined as part of the annual revenue and capital budget setting process taking into account affordability at the time and service priorities.

The level of investment noted in table 1 above would result in an average annual spend of £9.250m. This level of additional borrowing would require an increase of around £1.128m to the revenue budget each year for the 15-year period to take account of debt charges.

3.7 Housing Revenue Account

Local Authorities that own 200 or more social dwellings are required to account for them within a Housing Revenue Account (HRA), at this stage the Council is beneath this threshold.

The HRA records expenditure and income on running the Council's housing stock and closely related services or facilities provided primarily for the benefit of the Council's own tenants. The HRA is a statutory ring-fenced account required to be self financing and, as such expenditure has to be entirely supported from housing rental and other income.

4.0 FUNDING APPROACH

4.1 There are several external and internal funding sources which the Council explores to support the development and delivery of the Capital Programme. These include:

- UK Government and Regional Funding;
- Lottery, Trusts and Foundations;
- Developer Private / Partnership Funding;
- Enterprise Zone Finance and Tax Incremental Finance;
- Capital Receipts and Council reserves; and
- Prudential Borrowing.

Each potential funding approach comes with varying conditions and risks which need to be assessed and then managed as part of the scheme delivery.

4.1.1 UK Government and Regional Funding

- Grants are allocated by Government departments to specific programmes or projects on a competitive or formula basis. The Council seeks to maximise such allocations, developing appropriate projects and programmes which address priority needs in the city. With the Local Growth Fund, Getting Building Fund and European funding programmes now fully, the Council continues to access and investigate funding opportunities linked to the UK Government's Levelling Up agenda. Capital funding secured for major projects includes support from Transforming Cities Fund for the redevelopment of Central Station, Future High Streets Fund for a city centre transformation programme and the Levelling Up Fund to develop the city centre's housing ecosystem, including the Housing Innovation and Construction Skills Academy and two key housing sites on Vaux and Nile and Villiers Streets– Two other significant projects in delivery are co-funded by the Getting Building Fund to support digital and strategic infrastructure in the city centre and riverside areas, and to fund additional energy infrastructure on the Hillthorn Business Park site in Washington.
- The Council is awaiting the outcome of its round 2 bid to the Levelling Up Fund and plans to progress further bids to future rounds of the fund should additional funding be confirmed by Government. Delivery of Enterprise Zone funded capital works is ongoing on both the International Advanced Manufacturing Park (IAMP) and Port of Sunderland sites. Additional support from Government has also been secured to support the development of the IAMP Microgrid project. The Council will continue to work with Homes England and other Government departments to secure additional funding to support its ambitious capital programme.
- The Council secured funding through the UK Shared Prosperity Fund Investment Plan. Although this programme is predominantly revenue funding it will also provide a small amount of capital funding to support priority projects.
- Further consultation and guidance on the City Region Sustainable Transport Fund is awaited which should offer additional transport funding opportunities for the city as part of devolution funding over the next 4-5 years.
- Regional funding will continue to be accessed including from respources allocated to the North East as part of any devolution deal.
- Specific Government grants are utilised to support planned capital expenditure for example, maintenance of transport infrastructure, school buildings and provision of Disabled Facilities.

4.1.2 Non-Government and European grants

The Council continues to monitor opportunities to access non-government funding sources such as the National Lottery Heritage Fund, Sports England, Historic England, National Lottery Community Fund, and Arts Council England to support the delivery of the City Plan. Capital bids for funding are in the pipeline to support the redevelopment of Sunderland Museum and Winter Gardens, Library improvement projects in Houghton and Washington, and a nature conservation project in the former Coalfields area.

Apart from several existing capital projects that are currently being delivered, there are no further opportunities to access EU funding. All current European Structural and Investment Fund (ESIF)projects are scheduled to be completed by the end of 2023.

The UK Shared Prosperity Fund launched in April 2022 will operate until March 2025. Sunderland submitted its investment Plan in July 2022 and is awaiting the outcome of the Government's assessment process. The plan's coverage reflects local, regional and national priorities set out in the Sunderland City Plan, North East Strategic Economic Plan and Levelling Up White Paper – As outlined above, there is some limited scope to develop new capital projects.

4.1.3 Developer Private Funding

The Council has entered a number of private financing / partnering arrangements in recent years including Sunderland Lifestyle Partnership and Waste Management PFI. Funding arrangements have also been entered into with Legal and General in relation to the City Hall that will see other office developments funded and delivered by Legal and General as part of Riverside Sunderland.

The Council is committed to working with partners in the development of the city and its services. Various mechanisms provide opportunities to enhance the Council's investment potential with support and contributions from other third parties and local strategic partners. These range from commissioning / facilitating others to develop services in the city, funding for regeneration projects, and through match funding / joint funding of developments.

4.1.4 Alternative Sources of Financing

Enterprise Zones:

The Council has three live Enterprise Zone sites: A19 Low Carbon Zone, land at the Port of Sunderland and IAMP Phase 1. The Government's Enterprise Zone model allows all business rates growth generated by the Enterprise Zone to be kept by the relevant LEP for a period of 25 years. To unlock sites locally, the North East LEP approved a model of forward funding the required infrastructure work, whereby local authority borrowing is financed through the future flow of business rates growth receipts.

Tax Incremental Finance (TIF):

Tax increment financing (TIF) permits local authorities to borrow money for infrastructure projects against the anticipated increase in tax receipts resulting from the infrastructure. TIF arrangements need to be negotiated and agreed with Central Government.

4.1.5 Internal funding

- Capital receipts from asset disposals
  The Council has a substantial property estate, mainly for operational service requirements and administrative buildings. Reviews undertaken in accordance with the Asset Management Plan identify properties which are surplus to requirements, and which can be disposed.
  Capital receipts from asset disposals represent a finite funding source and it is important that a planned and structured manner of disposals is in place to support the priorities of the Council. As part of its property rationalisation programme, the Council markets sites when it is felt to be the appropriate time in order to achieve best value and help support operational efficiencies.

  The Efficiency Strategy, approved annually by Council, includes the continued proposed use of capital receipts to support costs arising from implementing the Council's savings programme, in accordance with Government guidance on the availability of flexibility around the use of capital receipts for transformation purposes through to 2024/25.

  The Council continues to maintain a policy of not committing receipts in advance of realisation and does not ring-fence the use of capital receipts to fund new investment in specific schemes or service areas, except where regulations require this i.e., educational land receipts. Instead, subject to any claw back provisions, resources are allocated in accordance with key aims and priorities.

  While the Council does not commit receipts in advance of realisation, an indicative programme of sales of assets into future years is in place against which progress will be monitored and managed.

  Receipts realised will be used to assist the Council's long term financial position. This will involve appraisal of the options to maximise revenue benefits, which could include:
    - Repayment of existing debt;
    - Mitigating requirements for future borrowing requirements in delivering the capital programme priorities;
    - Funding of Transformation Projects that will deliver efficiencies; and
    - Funding additional priorities.

- Capital Reserves
  There is currently limited scope for Capital reserves to support new capital proposals. Opportunities for the creation of additional capital reserves will be considered in the light of the outturn funding position each financial year.

- Lease finance
  Leasing may be considered where this provides best value as an alternative to purchasing, to determine this a lease versus buy options appraisal will be undertaken.

- Revenue
  Capital expenditure may be funded directly from a revenue contribution (CERA – capital expenditure charged to revenue account). However, the general pressures on the Council's revenue budget and Council Tax levels limit the extent to which this may be exercised as a source of capital funding.

- Prudential "unsupported" borrowing
  Under the Prudential Code, the Council has discretion to undertake borrowing to fund capital projects. The full cost of that borrowing must be taken account of in the Council's budget, through the Minimum Revenue Provision (MRP) Policy. Any borrowing must be prudent, affordable, and sustainable. The Code of Practice was refreshed in 2021 and strengthens restrictions on borrowing primarily for investment yield.

  Given the pressure on the Council's revenue budget, prudent use has been made of borrowing prioritising where there was a clear financial benefit, such as "invest to save", "spend to earn" or major regeneration schemes, which provide a net return over and above the borrowing cost, or a wider city benefit in line with the ambitions of the City Plan.

Council resources will be allocated to programmes based on asset lives to manage the long-term yield and revenue implications. Where available, any capital receipts will be focused on those assets with short term life span (e.g., vehicles and IT investments) and the unsupported borrowing on long term assets (e.g., land and buildings). This approach reduces the minimum revenue provision charge to the revenue account.

In November 2020, the Government published revised lending terms for the Public Works Loan Board (PWLB), which were implemented from the 26 November 2020 with a revision on 12 August 2021. The main feature of the new lending terms was to prevent Local Authorities from using PWLB loans to buy commercial assets primarily for yield. This was subsequently strengthened through the Prudential Code update issued in December 2021.

Any investment asset bought primarily for yield which was acquired after 26 November 2020 would result in the Council being unable to access the PWLB in that financial year or being able to use PWLB to refinance this transaction at any point in the future.

It isn't possible to reliably link loans to specific spending, so this restriction applies on a 'whole plan' basis – meaning that the PWLB will not lend to any Local Authority that plans to buy investment assets primarily anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

5.0 **DEBT, BORROWING AND TREASURY MANAGEMENT**

5.1 As defined by CIPFA in the Treasury Management Code of Practice, Treasury Management is:

5.2

> *'the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with the activities; and the pursuit of optimum performance*

Under the Prudential Code, local authorities have discretion over the funding of capital expenditure and the level of borrowing they wish to undertake to deliver their capital plans and programmes. However, capital spending plans must be affordable, sustainable, and prudent. To demonstrate this, the Council's longer term financial needs, alongside a projection of forecast external debt and borrowing, are detailed within the Prudential and Treasury Indicators 2023/2024 to 2026/2027 and within the Treasury Management Strategy Statement. This is approved annually by Council.

5.3 Table 2 below shows the estimated net revenue cost of debt charges and the future borrowing levels that will be required by the Council to meet its estimated capital financing requirement (CFR) over the 20-year timeframe included in the Capital Strategy. The table includes longer term capital financing requirements beyond the current capital programme timeframe that are identified in section 3.6 of this report but does not include other long-term liabilities (e.g., PFI schemes and finance leases).

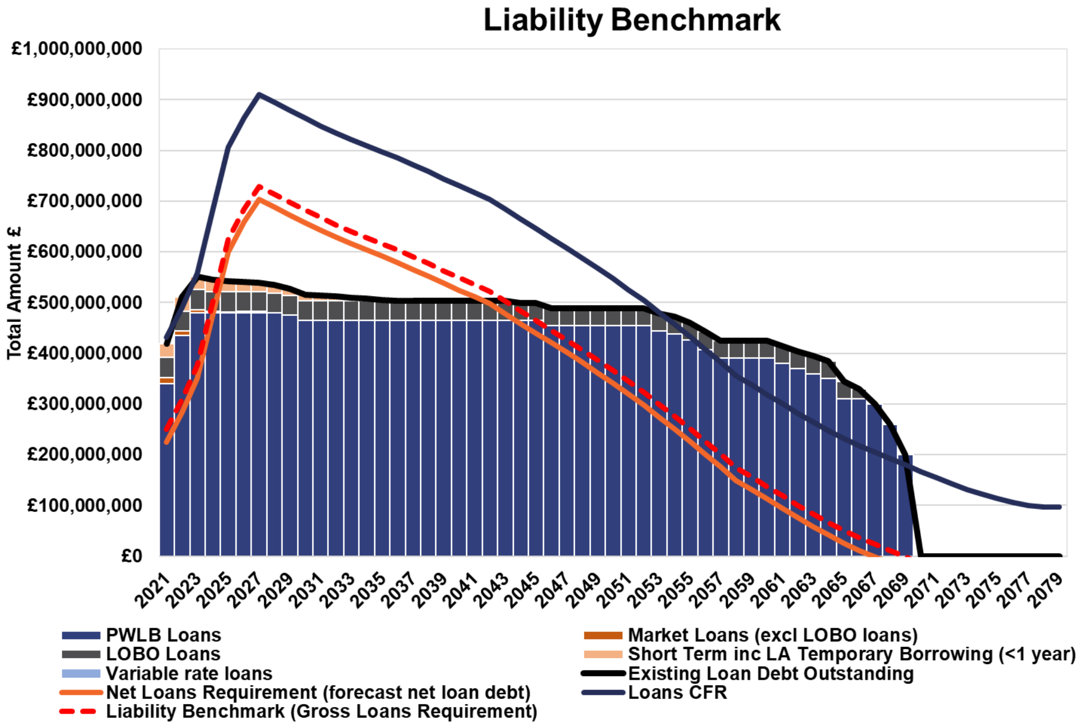
5.4 The CFR quantifies capital expenditure that has not yet been paid for from revenue or capital resources. It measures the authority's underlying need to borrow for a capital purpose. It does not increase indefinitely as it is decreased by the Minimum Revenue Provision, which reduces the borrowing need in line with assets lives. Consideration will be given to utilising cash backed reserves to temporarily fund the Council's borrowing requirement.

Table 2

	2027/28 £m	**2032/33 £m**	**2037/38 £m**	**2042/43 £m**
Capital Financing Requirement	888.624	783.906	688.935	590.576
Existing External Debt	534.679	509.650	503.999	504.063
Additional External Debt Requirement	353.945	274.256	184.936	86.513
Net Debt Charges	30.18	29.318	32.087	32.970

The Council ensures that the revenue implications of capital finance, including financing costs, are properly taken into account within option appraisal processes, the capital programme and the MTFP.

5.4 The liability benchmark for the Council is shown in the chart below. From 2023 onwards it is projected for the next 20 years that the Council will be under-borrowed against its requirements. This will mean that additional borrowing will be required but the Council will manage that, as it always has, by monitoring interest rates and identifying the most appropriate borrowing opportunities. There may be occasions when the Council will opt to actively be under-borrowed to avoid excessive interest rate costs and manage financing requirements through internal resources.



5.5 Borrowing Limits

All external borrowing and investment undertaken is subject to the monitoring requirements of the Prudential Code. Under the Code, local authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all the other Treasury Management Prudential Indicators.

Further details are included within the Prudential and Treasury indicators 2023/2024 to 2026/2027 as approved by Council in February 2023.

5.6 Debt Repayments

The Council is required to repay an element of its capital financing requirement each year through a revenue charge known as the MRP. The Council must set a prudent amount of MRP in an annual MRP Policy Statement that is approved by Full Council each year.

5.7 Treasury Management Governance and Risks

The Local Government Act 2003 and subsequent guidance requires the Council to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing both its borrowing and its treasury investments, which gives priority to the security and liquidity of those investments.

6 COMMERCIAL ACTIVITY – INVESTMENT STRATEGY

6.1 Since 2010 local government finances have been restricted by annual grant reductions, with much greater emphasis on self-sufficiency. The Council's Capital Strategy aims to support this agenda by increasing the physical and economic regeneration of the city, to generate more business rates and council tax to support Council services.

6.2 In recent years, a number of local authorities have increased their property portfolio for purely commercial / income generation reasons, often outside of their geographic area, in order to support existing Council budgets faced with continued grant reductions. This practice has drawn concern from both CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC) around the risk and security of funds from such commercial activity. DLUHC has subsequently updated its Statutory Investment Guidance, which requires that authorities:

- Prepare an investment strategy for approval by full Council once a year;
- Disclose the contribution that investments make "toward the service delivery objectives and / or place making role of the local authority";
- Include indicators that enable assessment of the authority's investments and decisions taken;
- Must not "borrow in advance of need" to profit from the investment of the sums borrowed. This requirement now applies to non-financial investments (e.g., investment in commercial property that is solely commercial) rather than financial instruments. In the past, investment in commercial property would have counted solely as capital expenditure and so could have been funded by borrowing; and
- If they do borrow in advance of need for profit, authorities must set out the reasons for their non-compliance in the strategy and their risk management arrangements.

6.3 To date, the Council has not entered any investment decisions (outside of Treasury Management transactions) that solely focus on the commercial return of that investment. Whilst some capital developments and loan agreements in place have a commercial rate of return, and this is considered as part of any decisions approved, all such investments are principally to support the regeneration and economic sustainability of the city. The Council has no property assets defined as "investment assets" held on its balance sheet.

6.4 The Council has prepared this investment strategy to comply with the statutory guidance issued by the DLUHC. In doing so, the overarching principles of any investment decisions are that:

- Investment decisions are made with the primary purpose of supporting the regeneration and economic resilience of the city, and that the benefit of such is set out as part of the decision-making process. As such no borrowing "in advance of need" would be undertaken;
- Any proposals to undertake any such investment decisions would fully consider appropriate risks and security of funds as part of any decision-making process and weigh up these risks against the anticipated benefits of the proposal;
- There would be a fully calculated and robust financial case of any proposal to be considered; and
- The approval for any such proposals follow the existing governance and approval process as set out in the Council's constitution.

6.5 Any ongoing monitoring of investment decisions will be undertaken using existing channels i.e., revenue and capital monitoring. No additional mechanisms will be put in place given the Council does not intend to undertake any purely commercial activities.

6.6 This strategy and the related activity sits alongside the Treasury Management strategy referenced elsewhere, as well as having direct relationships with borrowing and Prudential Indicators. The Council will ensure that this policy is updated on an annual basis to be compliant with any such changes as required by CIPFA or the DLUHC.

7 ENVIRONMENTAL SUSTAINABILITY

7.1 Sunderland is a thriving city and is home to businesses from all industries who are driving innovation and solutions to help tackle the climate change crisis and support the city's target of net-zero commitment by 2030. Businesses and stakeholders from across the private and public sectors are working together to invest in climate action and make the city resilient to future challenges and build a better future for the residents. There are many innovative and exciting projects being undertaken to support Sunderland's net-zero commitment and to help the city meet its climate change target.

7.2 The Council has a significant role to play in supporting the city to transition to net-zero carbon, the capital programme includes investment, which will help facilitate the Council's 2030 net-carbon target.

8 ASSET MANAGEMENT PLANNING

8.1 The Council has a responsibility for assets used in service delivery including property, highways infrastructure and vehicles, plant and equipment. It is essential to understand the need, utilisation, condition and the investment and operating costs associated with the Councils asset portfolio.

8.2 When prioritising investment, it is essential to understand the whole life costs of maintaining and operating existing assets, having consideration of which are deemed essential in continued service delivery or which can be considered for alternative uses.

8.3 Approved Asset Management Plans are in place for property assets that demonstrate the Council's stewardship of assets. A disposal strategy is also in place to relinquish or find alternative beneficial uses for assets deemed surplus to requirements.

8.4 In line with best practice, Cabinet will consider development plans for Highways and other infrastructure assets during 2023/24 and updates on property asset management plans already developed. The Council's approach to asset management and stewardship of assets will be supported by targeted internal and external reviews to assess the effectiveness of asset management practices including governance, risk management and control.

9 OTHER LONG-TERM LIABILITIES

9.1 Councils may take on liabilities and hold investments explicitly in the course of service delivery including regeneration. Whilst not included within the Capital Programme or the Treasury Management Strategy, they are included within the wider Capital Strategy to give an overarching view of the Council's financial position.

9.2 As at 31st March 2023 the Council held £56.003m long-term liabilities in respect of PFI schemes;

- Waste Management Partnership £40.696m;
- Street Lighting and Highways Signs £10.850m; and
- Sandhill View £4.457m.

9.3 The Council also held finance leases liabilities of £98.250m at 31st March 2023 mainly in respect of City Hall, Keel Square Hotel, Sunniside Multi Storey car park and the City Library building and embedded vehicle leases. An additional finance lease for Hillthorn Business Park is due to be finalised in the financial year 2023/2024.

9.4 The Council has entered a number of joint venture partnerships and provided loans to the following:

- Sunderland Lifestyle Partnership - In June 2015 the Council entered a unique joint venture (JV) partnership, known as Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd (SLM), to manage and operate the city's leisure facilities. The JV is a private company limited by shares and is owned by the Council and SLM in equal shares (50:50) and is managed by a board of directors with an equal number of representatives from each party; and

- IAMP LLP - This joint venture has been established with South Tyneside Council to deliver the International Advanced Manufacturing Park to the north of Nissan. Both parties own 50% of the LLP. Land currently held by IAMP has been financed through Local Growth Funding grant and member loans in the form of Loan Notes.

The Council also has the following Financial Guarantees in place:

- Future possible payments may be required to Gentoo (formerly the Sunderland Housing Group) under the terms of the Transfer Agreement established between the Council and Gentoo for claims relating to non-environmental and environmental warranties. This agreement was drawn up as part of the Large-Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Gentoo;

- In addition to this, the Council acts as a guarantor to the Tyne and Wear Pension Fund in respect of pensions for employees who were originally employed by the Council but transferred to Gentoo in March 2001; and

- The Council also acts as a joint guarantor (along with other councils) to the Tyne and Wear Pension Fund in respect of pensions for employees of several bodies such as the Association of North East Councils (ANEC) and the North East Regional Employers Organisation (NEREO). The councils involved have agreed with the Pension Fund administrators that, in the unlikely event of any of these bodies failing, any pension deficit would be repaid over an agreed repayment period. Independently, the Council has similar arrangements in place for possible pension deficits with several other organisations.

These guarantees have all been judged to be insurance contracts and have been valued accordingly.

9.5 All other long-term liabilities are subject to Council approval and detailed business cases are provided prior to approval being given. This includes clear identification and quantification of financial risks and any implied subsidy included in the proposals. All long-term liabilities are closely monitored for changes to assumptions made and the probability of financial guarantees being called upon.

10 KNOWLEDGE AND SKILLS

10.1 The respective disciplines which support the implementation of the Capital Strategy across the Council i.e., finance, legal, property, etc. are delivered by officers with the necessary skills and professional standing. Officers regularly attend training courses, seminars and conferences provided by CIPFA, RICS and other bodies to ensure they are up to date with emerging issues, regulatory changes, and best practice.

10.2 To ensure appropriate skill levels are available within the Council, suitable officers are provided with the opportunity to undertake professional training. The introduction of the Government's Apprenticeship Levy initiative is now supporting the financing of such development opportunities.

10.3 The Council uses Link Asset Services as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remain with the Council at all times and ensures that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

10.4 Where deemed necessary, external advisers / consultants will be engaged to support Council officers. These engagements may cover work packages including; business case development, regulatory consideration / compliance, project appraisal and specialist project delivery advice and support.

10.5 New Councillors are provided with financial training as part of their induction programme by internal Finance Officers. In addition, existing councillors can opt to receive refresher training as and when required, for example when they have a change in responsibly.

11 CONCLUSION

11.1 The Council has a long-established history of strong financial management. This Capital Strategy does not, in itself, introduce any new controls, but serves as a useful document as it summarises all the arrangements in place around our capital activities. It highlights the comprehensive arrangements in place to ensure that the Council can balance the need for continued investment in the city with the requirement to set a balanced MTFP and address the ongoing financial challenges that the Council faces.