Budget Planning Framework and Medium Term Financial Plan 2023/2024 – 2026/2027

Extract from report of the Assistant Director of Finance to Cabinet 13 October 2022

CAPITAL STRATEGY UPDATE - 2022/2023

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 – 2030) with an overall ambition that by 2030 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 other 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 2019-2030" Themes:

- By 2030 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 2030.

(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 CO2 emissions. The Council has set a target of becoming 'Carbon Neutral' by 2030.

More and better jobs – Overall employment for Sunderland was 68.8% April 2021 to March 2022, which is 1.2 percentage points below the North East position at 70%. 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 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).

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 2022/2023 – 2025/2026

The current approved capital programme commits substantial resources over the four years to 2025/2026.

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 section 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 March 2022 and taking into account any subsequent approved variations, covers the period through to 2025/26 and totals £627.601m. In addition, new capital scheme proposals to commence from April 2023 are currently being developed and are to be considered by Cabinet and then full Council in March 2023 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)	18.750	37.500
Property (2)	3.750	7.500
Vehicles (3)	6.500	13.000
ICT (4)	2.500	5.000
TOTAL	**31.500**	**63.000**

Assumptions;

(1) Highways – £3.750m 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 - £0.750m per annum rolling programme of planned property capital maintenance.

(3) Vehicles - £1.300m 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 £6.300m. This level of additional borrowing would require an increase of around £0.566m 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), it is anticipated the Council will reach this threshold in 2023/2024.

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 North East Local Enterprise Partnership (North East LEP) grants;
- 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 North East LEP grants

- 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 is also awaiting the outcome of a recent bid to the Brownfield Land Release Fund to support remediation and release of the former Civic Centre site for a major housing scheme. 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 submitted its UK Shared Prosperity Fund Investment Plan to Government in July 2022 and is awaiting the outcome of the assessment process. 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 over the next 4-5 years.
- 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 has 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 authority 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 2022/2023 to 2025/2026 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).

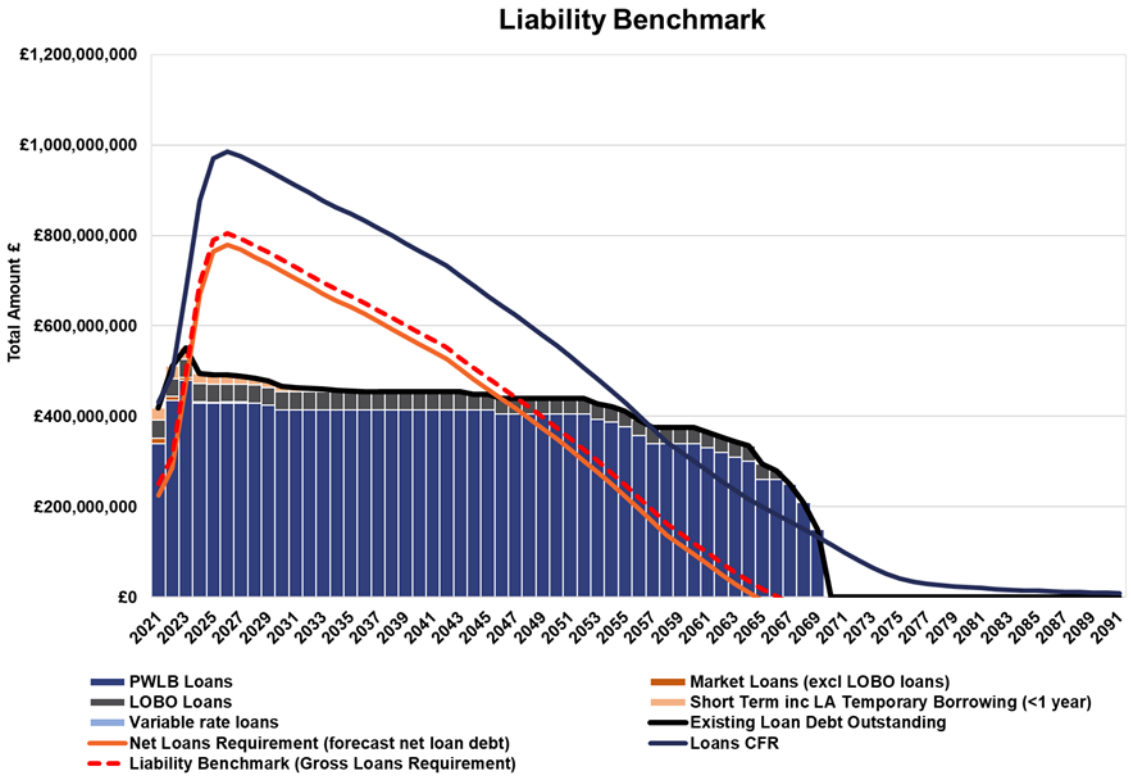
5.4 The CFR quantifies capital expenditure that has not yet been paid for from revenue or capital resources. It measures the authority's underlying need to borrow for a capital purpose. It does not increase indefinitely as it is decreased by the Minimum Revenue Provision, which reduces the borrowing 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

	2026/27 £m	**2031/32 £m**	**2036/37 £m**	**2041/42 £m**
Capital Financing Requirement	976.197	896.048	818.434	735.496
Existing External Debt	539.176	511.654	504.003	504.063
Additional External Debt Requirement	437.021	384.394	314.431	231.433
Net Debt Charges	39.506	42.663	42.048	40.310

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 2022/2023 to 2025/2026 as approved by Council in February 2022.

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 2022/23 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 2022 the Council held £60.496m long-term liabilities in respect of PFI schemes;

- Waste Management Partnership £42.969m;
- Street Lighting and Highways Signs £12.402m; and
- Sandhill View £5.125m.

9.3 The Council also held finance leases liabilities of £94.181m at 31st March 2022 mainly in respect of City Hall, Sunniside Multi Storey car park and the City Library building and embedded vehicle leases. Additional finance leases which are due to be finalised during the financial year 2022/2023 include Hillthorn Business Park and Keel Square Hotel.

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.