Sunderland City Council

Item No. 8

CABINET MEETING – 12 OCTOBER 2021 **EXECUTIVE SUMMARY SHEET- PART I**
Title of Report: Budget Planning Framework and Medium Term Financial Plan 2022/2023 – 2025/2026
Author(s): Executive Director of Corporate Services
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 2022/2023; • Sets out the headlines and context for the Medium Term Financial Plan (MTFP) 2022/2023 to 2025/2026; • Sets out the consultation / communication strategy for the budget 2022/2023; and • Seeks a recommendation to Council for the approval of the updated Council 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 2022/2023 to 2025/2026 will be presented to Cabinet in February 2022; • 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 2022/2023; • To approve the consultation / communication strategy for the budget 2022/2023 as set out at section 6 of the report; and • Recommend to Council approval of the Council's 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 2022/2023
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 2022/2023; • To enable constitutional requirements relating to the development of the Revenue Budget to be met; and • To comply with statutory requirements.
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 2021**

BUDGET PLANNING FRAMEWORK AND MEDIUM TERM FINANCIAL PLAN 2022/2023 – 2025/2026

Executive Director of Corporate Services

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 2022/2023;
- Sets out the headlines and context for the Medium Term Financial Plan (MTFP) 2022/2023 to 2025/2026;
- Sets out the consultation / communication strategy for the budget 2022/2023; and
- Seeks a recommendation to Council for the approval of the updated Council 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 2022/2023 to 2025/2026 will be presented to Cabinet in February 2022;
- 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 2022/2023;
- To approve the consultation / communication strategy for the budget 2022/2023 as set out at section 6 of the report; and
- Recommend to Council approval of the Council's Capital Strategy.

3. Medium Term Financial Plan 2022/2023 to 2025/2026

3.1. The MTFP 2021/2022 to 2024/2025 was approved by Council in March 2021 as part of the 2021/2022 budget setting process. The plan is continually updated to reflect changing circumstances and latest known information. The full MTFP 2022/2023 to 2025/2026 will be presented to Cabinet in February 2022.

3.2. Given the current significant uncertainties relating to Government funding, the covid-19 pandemic and future pressures on Council services, the focus of this report is on the 2022/2023 budget, although the full MTFP period will be forecast using the best information available at this stage. Key points to note which impact on the Budget Planning for 2022/2023 and beyond are set out at section 3.3 to 3.10 below.

3.3. National and Economic context to the 2022/2023 budget

3.3.1 The Chancellor delivered his 2021 budget in early March against the backdrop of the on-going global pandemic. This set out the Chancellor's 3-point plan to protect jobs and livelihoods; by supporting people and businesses through the pandemic crisis, beginning to fix the public finances and building the future economy. The pandemic has had a significant impact on UK finances with the Government's debt now exceeding £2.2 trillion, the highest ever peacetime level.

3.3.2 The Monetary Policy Committee (MPC) projects Gross Domestic Product (GDP) to grow by 7.25% in 2021 but has revised upwards its forecast for 2022 from 5.75% to 6.00%. There were no changes announced to its programme of quantitative easing purchases due to finish by the end of 2021 at a total of £895bn. The latest Office for National Statistics (ONS) data shows the annualised Consumer Price Index (CPI) inflation rate at 3.2% in August 2021, up from 2.0% in July, continuing several months of volatility in the economy. The 1.2% rise from July to August 2021, is the largest ever increase in the CPI 12-month inflation rate. The large change in the level of the index is likely to be a temporary effect as the situation remains volatile and uncertain. The variability and uncertainty is a direct consequence of the covid pandemic amongst other factors. The largest impact came from base effects, in particular, discounted restaurant and café prices resulting from the Governments Eat out Help Out scheme and the VAT reduction for the sector introduced last August. The Bank of England (BoE) expects inflation to peak at over 4% during 2021 with MPC forecasts showing inflation slightly under its 2% target in 2-3 years, which is the basis of the Council's MTFP assumption for inflation.

3.3.3 The Government's furlough scheme introduced in March 2020, at the outset of the pandemic, ended on the 30th September 2021, at an estimated cost to Government of £66 billion. UK unemployment level data released in September indicated unemployment at 4.6%, which is 0.6% higher than before the pandemic. The current UK employment position is unlikely to be fully understood until the reaction of businesses to the furlough scheme ending is known.

3.3.4 The BoE's Monetary Policy Committee (MPC) meeting on 5th August 2021 voted unanimously to leave the Base Rate unchanged at 0.10%. The MPC changed its previous stance of not tightening monetary policy, to now flagging that modest interest rate increases may be on the horizon.

3.3.5 To support the Government's recently announced Health and Social Care plan; "Building back Better", National Insurance contributions for both employees and employers will rise by 1.25% from April 2022. The majority of the funding (£25bn) will be directed to NHS over the next 3 years and £5.4bn over 3 years for the costs of Social Care. The full impact on the Council and its associate companies of the National Insurance contribution increases or the impact of the additional funding for social care can't yet be quantified given the lack of detailed guidance from the Government.

3.4. Central Government Funding for Local Government

3.4.1 The Comprehensive Spending Review in November 2020, provided a one-year Spending Round for departmental budgets for the 2021/2022 financial year. The Council's core government funding for 2021/2022 was confirmed in the Local Government Finance Settlement in December 2020.

3.4.2 The Chancellor has announced that his Spending Review 2021 with be held on 27th October 2021 and that this will set government departmental resources for the 3-year period 2022/2023 through to 2024/2025. Although the newly named Department for Levelling-Up, Housing and Communities (LUHC) will receive a multi-year allocation, it is still considered unlikely that they will provide councils with anything other than a further one-year settlement for 2022/2023, given the continued uncertainties around the Fair Funding Review and changes to Business Rates Retention.

3.4.3 The Fair Funding Review and move to a 75% Business Rates retention model were initially due to be implemented in 2021/2022. The Covid-19 pandemic limited Central Government's ability to consult upon and progress this significant funding change. 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 75% Rates Retention was introduced. 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 currently unknown if this issue will be addressed as part of the Local Government Settlement.

3.4.4 The position will be kept under review; at this stage the position 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)

3.4.5 Given the delay in the implementation of a revised Business Rates Retention Scheme, RSG is likely to be retained in 2021/2022. Pending any formal announcement on inflationary increases, the MTFP assumes a standstill settlement in cash terms for 2022/2023.

Social Care Funding

3.4.6 Members may recall that the 2021/2022 settlement allowed for the continuation of a number of previously one-off Social Care grants and also a new Social Care Support Grant. This additional funding, whilst welcome, fails to provide both the certainty and level of funding required to meet the continued pressures being experienced within Social Care, exacerbated by the current pandemic.

3.4.7 The Government's Plan for Health and Social Care; "Build Back Better" was announced in September 2021. The plan will have a significant impact on local authorities through the introduction of a new cap of £86,000 on social care costs, alongside an increase in the asset threshold from £23,250 to £100,000 which are to be introduced from October 2023.

3.4.8 A further financial impact on councils is likely to be felt from the "market equalisation" of care costs. Current self-funders will be able "to ask their local authority to arrange their care for them so that they can find better value care". Self-funders typically pay higher rates than their local authority and so any equalisation will result in increased rates for local authorities. Some of the financial pain might fall to care providers – but given their financial state, this is not viable at any scale without costs falling back on local authorities.

3.4.9 Nationally, funding of £5.4bn over 3 years will be made available to fund the above reforms, but how that will compare to the actual increase in costs to be faced by councils and the methodology for distributing the funding are still unknown.

3.4.10 Although it is indicated that additional funding will be made available to meet the costs of the reforms, the Government's Plan goes on to state; "We expect demographic and unit cost pressures will be met through Council Tax, social care precept, and long-term efficiencies….". This statement confirms the Government's continued lack of commitment to addressing the underlying social care cost pressures all councils in the country are facing.

Public Health Funding

3.4.11 It was envisaged that Public Health would be rolled into the overall council funding position following the Fair Funding Review, with the risk that the Council would lose significant funding should the Government accept the Advisory Committee on Resource Allocation (ACRA) methodology for distributing these funds. In light of the delay in implementing the Fair Funding Review, and any announcements on inflation for 2022/2023, the MTFP assumes a rolled forward position in cash terms.

New Homes Bonus (NHB)

3.4.12 As announced by the Chancellor in his November 2020 Spending Review, the existing NHB scheme will continue for a further year, with the existing scheme now ceasing at the end of 2022/2023. The national quantum of funding available for distribution from the NHB was permanently reduced as part of the 2021/2022 settlement announcements, due to allocation increases elsewhere in the settlement being funded from this source, namely the new Lower Tier Services Grant, £150m of the additional funding for Social Care and the RSG increase.

3.4.13 The future of the NHB was the subject of Government consultation in spring 2020, the outcome of which is yet to reported. At this stage, the MTFP allows for a redistribution of this funding source to councils based on the baseline formula with a risk reduction attached, given the significant uncertainties are this stage i.e. that the Government redistribute this funding on a basis that disadvantages this Council.

Other Government Grant funding streams

3.4.14 Other Government grants are not anticipated to be confirmed until the Provisional Local Government Settlement is announced in December 2021. However, planning assumptions are currently:

- The Business Rates multiplier and Top Up grant is anticipated to increase in line with inflation (CPI).

- 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 2022/2023.

Schools Funding / Special Education Needs

3.4.15 The Education and Skills Funding Agency (ESFA) have announced provisional allocations through the schools, high needs and central services funding blocks. Overall, the Dedicated Schools Grant (DSG) will increase by £2.3bn; £780m of this is being directed to the High Needs Block. As part of the settlement the minimum per pupil funding levels will be set at £4,265 per primary pupil, Secondary £5,525 per Secondary pupil (£5,321 per KS3 pupil and £5,831 per KS4 pupil). Other factors in the formula increase by 3% with the exception of Free School Meals which has a 2% uplift to the per pupil value.

3.4.16 For 2022/2023, each local authority will continue to set a local schools funding formula, in consultation with local schools. ESFA are continuing in their plans to move to a ‘direct’ (formerly ‘hard’) National Funding Formula in the future, which will determine school funding allocations directly at a national level, rather than local funding formulae.

3.4.17 It is currently anticipated that the ESFA will publish the provisional National Funding Formula allocations at local authority and school level in October 2021 with final DSG allocations published in December 2021.

Summary Funding Position Over Medium Term

3.4.18 Based on the indicative funding allocations detailed above, Government funding is forecast to increase by circa £1.967m in the year 2022/2023. This estimate excludes the potential impact arising from the recently announced Social Care reforms, given there is limited funding information available at this stage.

3.4.19 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 the 75% Business Rate Retention Scheme.

3.5. Provision for Spending Pressures and Commitments 2022/2023 to 2025/2026

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 number of cases specific cost details still require finalisation and will be subject to review and refinement throughout the budget setting process:

Pay and Prices

3.5.3 The pay award for 2021/2022 is still to be agreed. In July a formal pay offer of 1.75% was made for 2021/2022, with Trades Unions balloting their members on the offer during September and October, with a recommendation to reject this offer. A 2% pay award continues to be factored in to budget for 2021/2022 and budget planning for further years. As most pay budgets now reflect provision for “top of the grade”, no provision is set aside for pay increments. The position will be kept under review throughout the budget process.

3.5.4 Provision is included within budget planning for the impact of general contract inflation, including on contracts, utilities, 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.

3.5.5 Provision for an inflationary increase in discretionary fees and charges has been included within budget planning. An updated schedule of fees and charges for 2022/2023 will be published prior to 30 September 2022 in line with the fees and charges policy.

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

Spending Pressures

Adults Demand Pressures

3.5.7 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 55,300 in 2020 to 69,000 by 2035 (an increase of 25%) and the number of people aged 85 years and over (i.e. those with the greatest care needs) is forecast to rise from around 6,300 in 2020 to 9,200 in 2035 (an increase of 46%). This gives a sense of the mounting pressure that Sunderland's ageing population is likely to have on the delivery of Adult Social Care.

3.5.8 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. Sunderland Clinical Commissioning Group (SCCG) have established an alliance to deliver integrated community care in Sunderland. Commissioners (SCCG and the Council) and providers have worked collaboratively to develop the alliance approach for Sunderland.

3.5.9 Demand for social care packages to support hospital discharges has increased significantly due to the Covid-19 pandemic, and 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.

3.5.10 As referred to in section 3.5.4, the National Living Wage represents a significant cost pressure for councils 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.

3.5.11 Provision for additional increased Adult Social Care of £4.900m relating to demand has been included in the MTFP for 2022/2023 and will be kept under review.

3.5.12 Norfolk County Council recently had a court ruling against them in relation to their charging policy for a severely disabled client. The client was unable to work but had their enhanced benefits taken into account from a charging perspective. The Court ruled that due process had not been followed in terms of implementing their current charging policy. Whilst Sunderland is confident that it has followed robust process and national guidelines any national changes to account for the Norfolk Council ruling may result in a reduction to client contribution income that could be in the region of £1.340m, including an element totalling £0.900m for backdated charges. Provision has been made within the MTFP and will be kept under review.

Children Services Pressures

3.5.13 TfC is forecasting in-year pressures of £9.3m largely driven by external factors.

3.5.14 Despite a reducing number of cared for children, the increasing complexity of children's needs and finite capacity in the residential market is leading to higher prices being charged for accommodation and also a sizeable increase in Special Guardianship Orders enacted through the Courts. Both of the foregoing necessitates strong legal counsel which is costly. An anticipated pressure of £7.500m.

3.5.15 Staffing, the company is bound to the staffing terms and conditions of the Council and incremental progression was funded in the first two years but not thereafter; this fact, coupled with short -term funding for a team ending has led to an in-year pressure of £0.650m.

3.5.16 As with traded services across the Council, the academisation of schools has led to a withdrawal of schools from buying services from the Company; an anticipated pressure of £0.250m.

3.5.17 The national pressure on Home to School Transport post Covid, is now being acutely felt in Sunderland with an anticipated full year pressure in the order of £0.900m.

Waste Materials Recovery Facility

3.5.18 The Council's previous Materials Recovery Facility contract, which processes all blue bin kerbside recycling collected, expired in March 2021 after a 6-year period. Since then, costs have increased substantially and the income received from recycled materials has reduced, due to a fall in demand. This reflects a changing recycled commodity market over several years since the previous contract was let, which is outside the control of the Council. Through the South Tyne and Wear Waste Management Partnership, a 12-month contract commencing April 2021 was awarded and pending further certainty over tonnage levels and the impact of the pandemic, an initial sum of £0.700m was provided within the 2021/2022 budget for the additional costs.

3.5.19 The award of a 12-month contract has allowed time to develop a new contract which shares risk and rewards allowing better value for money in the medium term than would otherwise have been achieved and to allow the Council flexibility around understanding the potential implications of the Government's 2023 Environment Bill Resources and Waste Strategy. This is anticipated to move some of the burden of collecting consumer packaging from councils to industry, through waste producer compliance schemes and deposit return schemes.

3.5.20 Procurement is currently underway for the new contact which is to commence from 1 April 2022. The current estimated financial implications are that there is likely to be a further budget pressure in the region of £1.000m per annum from 2022/2023, based on 2020/21 recycling volumes (24,000 tonnes).

Environmental Services

3.5.21 As Members will recall, a review of the Environmental Staffing arrangements was to be considered during 2021/2022 with additional funding of £0.500m earmarked to support the service provision. The review has now concluded and a further budget of £0.490m is required beyond the original £0.500m provided in 2021/2022. This additional requirement has been factored in to the MTFP.

Neighbourhood Services - Other Service Pressures and Loss of Income

3.5.22 Other expenditure pressures to support front line services have been included within the medium term planning, namely; £0.250m to support the reopening of the Raich Carter sports centre pool and £0.295m to recognise ongoing reductions in some income earning areas, largely as a result of the pandemic.

Acceleration of Business Recovery in the City

3.5.23 To ensure businesses in the City recover in an accelerated fashion as we emerge from the pandemic, the Council will support this through additional resource of £0.100m.

Corporate Services - Service Pressures and Loss of Income

3.5.24 A number of priority areas have been identified as being required to support City Plan delivery and service continuity, these include; staffing support for the Smarter Cities initiative (£0.200m), ICT delivery requirements (£0.074m), staffing to support the move to City Hall and also Legal Enforcement action (£0.183m), delivery of a residents survey to inform council priorities (£0.050m) and also £0.211 linked to downturns in income generation.

Capital Financing

3.5.25 The Council is ambitious and investing in the City is a key element of how the City Plan will be delivered. It is important that the capital programme is affordable, and that the ongoing costs of funding capital activity are included in the revenue budget. During the preparation of the 2021/2022 budget, a review of the Capital Financing budget was carried out, recognising delays and rephasing of the capital programme in the light of Covid-19. This resulted in a temporary one-off reduction to this budget in 2021/2022, this temporary reduction is reversed for the 2022/2023 budget to support the capital programme delivery. It should be noted that the current additional provision over the period of the MTFP covers the currently approved capital programme schemes and as such does not include any additional borrowing costs that may arise for new capital scheme approvals during the MTFP period.

Pensions Actuarial Review

3.5.26 The Triennial Actuarial review of the Local Government Pension Scheme was concluded by March 2020 leading to a budget saving of £9.450m in 2020/2021. Given the economic uncertainty, at this stage the MTFP reflects a reversal of this improvement at the next triennial review, with a £10.000m pressure being included for 2023/2024. The position will be kept under review and factored into the Budget Planning Framework as it becomes more certain.

Contingencies

3.5.27 In recognition of some temporary items into contingencies during 2021/2022, it is anticipated that £0.900m can be released from this fund to offset general spending pressures. The exact value and composition of contingencies will be determined later in the budget setting process when greater certainty on funding and spending pressures is available.

Covid-19 Pressures

3.5.28 At this stage the pace and extent of recovery from Covid-19 continues to be unknown. However, the impact is expected to continue into 2022/2023 regardless of whether the country endures any further waves of infection. The budget provision consideration reflects some ongoing impact from the pandemic in to 2022/2023 and future years.

Summary Spending Pressures and Commitments

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

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Spending Pressures and Commitments					
Pay, Prices and Other Pressures including Contract Inflation	8.229	11.324	9.930	10.272	**39.755**
Adult Social Care Demand Pressures	6.240	0.100	1.000	1.000	**8.340**
Together for Children - Pressures	9.303	0.500	0.500	0.500	**10.803**
Materials Recovery Facility - Waste Management	1.000	0.000	0.000	0.000	**1.000**
Environmental Services	0.490	0.000	0.000	0.000	**0.490**
Neighbourhood Services - Other Service Pressures and Loss of Income	0.545	0.000	0.000	0.000	**0.545**
Culture House	0.000	1.000	0.000	0.000	**1.000**
Acceleration of Business Recovery in the City	0.100	0.000	0.000	0.000	**0.100**
Corporate Services - Service Pressures and Loss of Income	0.718	0.000	0.000	0.000	**0.718**
Capital Financing (Debt Charges)	8.000	2.630	3.000	0.500	**14.130**
Pensions Actuarial Review	0.000	10.000	0.000	0.000	**10.000**
Contingencies Review (removal of temporary items for 2021/22)	(0.900)	0.000	0.000	0.000	**(0.900)**
Transport Levy Rebate (removeal of one off rebate in 2021/22)	0.292	0.000	0.000	0.000	**0.292**
Total Spending Pressures and Commitments	**34.017**	**25.554**	**14.430**	**12.272**	**86.273**

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:

- The Government’s October Comprehensive Spending Review, and the subsequent Local Government Finance Settlement confirmation for 2022/2023, to confirm the actual individual Local Authority allocations. This is normally announced in December;
- The ongoing impact of Covid-19 pandemic on Council costs and income and the wider economic uncertainty this creates;
- Uncertainty about central Government funding for local transport, notably the Metro system which is facing significant pressures due to reduced passenger numbers. No additional transport levy increase is included over and above that included already in the MTFP, but may require additional funding if central Government funding is not made available;
- Ongoing pressures around both Adult and Children’s Social Care;
- Confirmation of delivery of existing savings plans assumptions;
- Going forward the impact of capital 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 impacting on 2022/2023 and beyond; and
- The general economic position and the direct impact on public sector finances.

3.6.2 The savings requirement 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 2025/2026.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Government Grant Changes (as set out in section 3.4)	(1.967)	(1.500)	(1.299)	(1.308)	(6.074)
Total On-going Spending Pressures (as set out in section 3.5)	34.017	25.554	14.430	12.272	86.273
Initial Funding Gap	32.050	24.054	13.131	10.964	80.199

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 councils exceed the Government limits then the public are able to vote to agree or veto any increase.

3.7.2 In recent years Government funding calculations have reflected the assumption that councils will maximise their ability to increase Council Tax, including levying the Social Care Precept introduced in 2016/2017.

3.7.3 To date there has been no clarity as to the potential limit for Council Tax increases for 2022/2023. 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, the MTFP continues to allow for an annual increase of 2% in line with previous years increases. No increase in the Social Care Precept is assumed in the MTFP at this stage, although the impact of the recent Health and Social Care Plan is not yet known given the level of detailed guidance received to date.

3.7.5 The impact of Covid-19 on Council Tax collection rates and Local Council Tax Support Scheme is likely to continue in to 2022/2023. The situation will be monitored during the budget setting process to see the impact of the furlough scheme ending and the general progression of economic recovery.

Business Rates

3.7.6 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.

3.7.7 Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. However, there is continued uncertainty specifically around 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.

3.7.8 As with Council Tax, the impact of Covid-19 on Business Rates is likely to continue into 2023/2023 in terms of collectability and business survival as the economy recovers. 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 sections 3.4 to 3.7, there is currently a funding gap of £25.769m in 2022/2023, with total savings of £56.747m required to be identified over the MTFP period, 2022/2023 and 2025/2026. 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 2022, once outstanding uncertainties have been clarified. This position is set out in the table below:

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Governement Grant Change	(1.967)	(1.500)	(1.299)	(1.308)	**(6.074)**
On-going Spending Pressures	34.017	25.554	14.430	12.272	**86.273**
Total Gross Funding Gap	**32.050**	**24.054**	**13.131**	**10.964**	**80.199**
Assumed Council Tax / Social Care Precept increase	(2.211)	(2.315)	(2.373)	(2.432)	**(9.330)**
Council Tax Base Impact	(2.907)	(2.907)	(0.595)	(0.608)	**(7.016)**
Council Tax Deficit Impact	(0.965)	0.000	(1.246)	0.000	**(2.211)**
Business Rates - Base and Inflationary impact	(2.487)	(1.226)	(1.934)	(1.535)	**(7.182)**
Current MTFS Gap after agreed savings proposals, council tax and business rates	**23.481**	**17.607**	**6.983**	**6.389**	**54.459**
Use of Reserves 2021/2022 (reversal)	2.288	0.000	0.000	0.000	**2.288**
Current MTFS Gap after grant and local taxation changes	**25.769**	**17.607**	**6.983**	**6.389**	**56.747**

3.9 Approach to addressing the funding gap

3.9.1 The actions 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 Medium Term Planning Reserves provides the opportunity to utilise reserves to support the budget position whilst developing and delivering savings via the Efficiency Strategy, over a medium term time frame.

3.9.2 The Council's Efficiency Strategy was agreed by Council in March 2021. 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 waste and duplication;
- Redesigning and reshaping services to deliver required outcomes in a value for money way which maximises productivity. At this stage, given the scale of the financial challenge, it is now inevitable that significant reductions in staffing levels will be required. The Council will work with Trades Unions in terms of consulting staff in line with statutory guidelines;
- Strategic commissioning based on outcomes and using an intelligence-based approach to ensure a sound evidence base for commissioning decisions and effective commissioning arrangements;
- Pressing forward with new models of service delivery that improve our commercialisation, to maximise income opportunities where there is a market and business case;
- 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 a schedule of Earmarked Reserves as at the 2nd review at Appendix 1b.

4. Budget Planning Framework

Budget Planning Framework 2021/2022 to 2024/2025

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 2021;
- Provision for spending commitments be included at this stage on the basis set out at section 3.5 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 2021/2022 the budget process will be completed on the basis that the saving plans in the 2021/2022 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 2022/2023 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 2022/2023

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 savings for 2022/2023 and beyond, the budget consultation in 2021 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. The approach will be consistent with the successful Let's Talk initiative, tailored accordingly to the current pandemic situation.

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 Equality Forums and 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 2022.

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 Equalities Analysis

8.1 In accordance with the approach followed in previous years the Council continues to fully consider the impact of its plans by following a robust approach to equalities analysis. Appendix 2 sets out the approach adopted to the budget setting process.

8.2 Directorates must consider the equality impact of any new proposals brought forward to meet the future budget gap and complete equality analyses as appropriate. Completed equality analyses, considerations of potential impacts and a summary of the cumulative impact of proposals will be presented with future Cabinet reports

8.3 Members must understand the equality implications of the proposals, outlined in the equality analyses and at appendix 2 as having regard to them will assist members 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 2022/2023.

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 2021/2022 and Medium Term Financial Plan 2021/2022 to 2024/2025 (3rd March 2021 Council).

Appendix 1a

Statement of General Fund Balances

	£000
Balances 31st March 2021	**12.000**
Use of / Addition to Balances 2021/2022	
Contribution to Revenue Budget	0.000
Estimated Balances 31st March 2022	**12.000**

Appendix 1b

Major Earmarked Reserves

Reserves	Purpose of the Reserve	Opening Balance 01.04.2021 £m	Forecast Movement in Year £m	Closing Balance 31.03.2022 £m
General Fund	General Fund of the Council	12.000	0.000	12.000
School Balances	Balances held by schools under a scheme of delegation	10.742	(2.380)	8.362
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.	9.041	(0.393)	8.648
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.	8.192	(0.593)	7.599
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.	7.995	(0.391)	7.604
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	3.782	(3.096)	0.686
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.	1.007	(0.700)	0.307
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan	0.162	(0.162)	0.000
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.358	(0.533)	0.825

Earmarked General Fund Reserves – Revenue				
NNDR Covid Retail, Hospitality and Leisure Relief Grant Reserve	Reserve established to manage the requirement to fund Collection Fund deficits in the proceeding financial year. Section 31 Retail, Hospitality and Leisure Relief Grant held to offset deficit in 2021/2022.	19.874	(19.874)	0.000
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.	17.861	(2.248)	15.613
Service Reduction Reserve	This reserve is to provide temporary transitional funding relating to the implementation of planned service reductions.	12.145	0.000	12.145
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.	9.997	0.000	9.997
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	5.749	(2.291)	3.458
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.600	0.000	5.600
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.	4.281	(0.166)	4.115
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.	4.179	(0.500)	3.679
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.	4.000	0.000	4.000
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.	3.500	(0.750)	2.750
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
Transformation Reserve	To support the changes that are likely to be required over the next 12-18 months to address financial pressures as the city emerges from the pandemic and MTFP challenges.	3.000	(1.500)	1.500

Children's Social Care	A reserve to fund any one-off Children's Social Care costs that may arise in the future.	3.000	0.000	3.000
Public Health Grant	Ringfenced Public Health grant funding, to deliver future public health initiatives.	4.142	(1.100)	3.042
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	(0.167)	1.984
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	2.125	0.267	2.392
Low Level Family Support	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.	2.000	(0.600)	1.400
Children and Young People Recovery	The reserve was established for TfC to deliver a range of activities that will support covid-recovery activities.	1.700	(1.700)	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
Covid-19	A reserve established from the Government grant to fund the immediate costs and lost income associated with the Covid-19 pandemic.	1.512	(1.512)	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.	1.298	(0.250)	1.048
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.	1.253	0.000	1.253
Triathlon	Reserve established to support a bid to secure a multi-year arrangement with British Triathlon to host triathlon events in the City.	1.200	0.000	1.200
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	1.197	(0.105)	1.092
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.	1.020	0.000	1.020
Other Earmarked Revenue Reserves	Numerous small revenue reserves less than £1m which are set up for specific purposes.	17.657	(6.486)	11.171
Total General Fund Reserves		**189.362**	**(47.230)**	**142.132**
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	9.401	(2.899)	6.502
Capital Grants Unapplied	Balance of capital grants held pending expenditure on capital programme.	4.085	(2.197)	1.888
Total Usable Reserves		**202.848**	**(52.326)**	**150.522**

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 equality analysis informs the budget-setting process

2.1 Individual proposals for savings are reviewed to determine whether equality analysis is required. Where equality analyses are required, and negative impacts are identified, it is the responsibility of the services to minimise these as far as possible. A standard approach is taken each year to ensure:

- equality considerations are given to each new savings proposal;
- proposals agreed in previous years are reconsidered to ensure planned equality analysis has been completed or refreshed, where appropriate; and
- and where equality analysis is finalised, a sampled quality assurance process takes place to ensure the relevant considerations are being made in a thorough manner.

2.2 The detail of the analysis is dependent on the nature of the proposal and its stage of development. It also includes results from budget consultations, where appropriate. The consultation is also suitably tailored to the scale of the proposals and the approach is outlined at paragraph 6 of the main report.

3 Key Messages for 2021/2022

3.1 For 2021/2022 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;
- The need to increase placement availability for looked after children; and
- Focus on the Covid-19 pandemic and associated recovery.

As our local response to these issues is determined, 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.

4.2 Services and directorates are responsible 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 - 2021/2022

1. INTRODUCTION

1.1 Background

1.1.1 The overarching aim of the Sunderland City Council 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 was updated by the Chartered Institute of Public Finance and Accountancy in December 2017 with further guidance released in September 2018. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

1.1.3 The updated Prudential Code requires local authorities to have an approved Capital Strategy, in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.

1.1.4 The Prudential Code also 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.

1.1.5 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 the physical aspects of digital connectivity for both residents and business. There is also a focus on reducing overall emissions, with transport known to be a significant factor in emission levels. The Council has set a target of becoming 'Carbon Neutral' by 2030.

More and better jobs – Overall employment for Sunderland was 68.8% at the end of 2020/21, which is 2.4% below the NE position. Our focus remains on increasing well paid jobs in the city through promoting growth in target sectors including advanced manufacturing, Port related activity, the digital and software sector, professional sector in the City Centre (office jobs) alongside more creative and cultural businesses in relation to vibrancy.

More local people with better qualifications and skills – The City Plan sets out the challenge that the qualifications and skills that residents have don't match the needs of industry in the city. Our 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. We will also support and enable apprenticeship and work experience opportunities focused on skills and experience for the local economy and ensure the fabric of our learning establishments is supporting the best possible learning outcomes. The Council also has a statutory duty to ensure that there are sufficient school places in the city.

A stronger city centre with more business, housing, and cultural opportunities – The City Plan sets out the challenge that Sunderland City Centre is not functioning as the economic motor of the city. There is a need to attract new jobs to the city and new homes for city centre living. Our plans focus on a range of physical developments and development of key sites to promote regeneration. Through our everyday planning responsibilities, we continue to work to promote a desirable and vibrant retail and leisure offer.

More and better housing – Our focus under this City Plan commitment is to enable the delivery of more housing, in particular larger family, and high-status homes to stem outward migration from the city. Alongside this, we are committed to ensuring that that the housing we have is of quality by bringing empty homes back into use, reducing properties with a category 1 hazard and ensuring enough affordable housing. The Council's Housing Strategy provides the vision for a greater choice of good quality homes which meet the needs and the aspirations of our residents.

(b) <u>Healthy Smart City</u>

Reduced health inequalities enabling more people to live healthier longer lives – One of the key challenges for the City is that health outcomes in Sunderland are still poor and health behaviours haven't yet changed sufficiently. Our plans focus on areas where we can support individuals (and businesses through the Better Health at Work Awards) to make healthy choices, thereby promoting healthy behaviours and overall wellbeing. We want to increase activity at all levels, from everyday activeness through to a city being recognised as a centre of excellence in sport.

Access to equitable opportunities and life chances – This commitment is about reduced health inequalities enabling more people to live healthier longer lives, access to equitable opportunities and life chances, people enjoying independent lives, a city with great transport and travel links and cleaner and more attractive city and neighbourhoods.

People enjoying independent lives – Although 98.4% 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. Working with our partners, we aspire to reducing the number of emergency hospital admissions due to falls for those aged 65+ through our City Plan and want to ensure that as far as possible adults with learning disabilities and those with secondary mental health services can live independently (currently at 92.9% and 54% respectively). This means greater partnership working and maximising the use of technology.

A City with great transport and travel links – Our emphasis within the City Plan is about ensuring that people can move around the city with ease through improved transport routes (roads), enabling access to key employment sites. It is also about active travel within the city by having in place the necessary infrastructure of sufficient and appropriate cycle routes and walkways.

Cleaner and more attractive city and neighbourhoods – Our focus here is on promoting environmental responsibility amongst residents to achieve a cleaner and more attractive city. We are encouraging communities to take greater responsibility for their environments through a community responsibility communication plan.

(c) Vibrant Smart City

More resilient people - We will support our people to be more resilient by supporting families that require early help and we will also seek to build resilient communities through mitigating the impact of welfare reform and hardship where possible.

More people feel safe in their neighbourhoods and homes – This commitment relates both to people feeling safe from crime and vulnerable adults who use our services feeling safe. We are committed to disrupting criminal and anti-social behaviour through intervention and enforcement

More residents participating in their communities – This commitment is about residents, including children and young people, being able to engage with and participate in their communities – with a focus on enabling participation for all.

More people visiting Sunderland and more residents informing and participating in cultural events, programmes, and activities – Prior to the restrictions due to the COVID pandemic, figures show that both the number of visitors and visitor spend was increasing. Our focus is on gaining funding for new sporting and cultural events and facilities.

(d) Organisational Health

As an organisation we have a challenging but exciting cultural change journey ahead. 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. Moving ahead we will 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; and
- Generating and supporting funding opportunities which encourages and levers in private sector investment to the city.

2.3 The global pandemic has clearly impacted upon the City's residents, businesses, and visitors. Work to deliver the ambitions set out in the City Plan has continued throughout the pandemic and is critical to the City's recovery.

2.4 Partnership working and investment opportunities

2.4.1 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).

2.4.2 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

3.1.1

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

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 2021/2022 – 2024/2025

The current approved capital programme commits substantial resources over the four years to 2024/2025 and can be viewed at Capital Programme 2021/22 - 2024/25

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 Capital Strategy Board who assess the relative priority of the submissions from a strategic perspective, aligned to the corporate priorities; and
- The 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 2021 and taking into account any subsequent approved variations, covers the period through to 2024/25 and totals £691.900m. In addition, new capital scheme proposals to commence from April 2022 are currently being developed and are to be considered by Cabinet and then full Council in March 2022 prior to their commencement.

Table 1 below provides a high-level minimum estimate of the capital requirement over the subsequent 15-year period commencing 2026/2027. 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 maintenance of the Council's major highway assets including roads, bridges, footways, and traffic signal equipment;
- Property – Improvement and 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 (2026/27 – 30/31)**	**Forecast Requirement 10 Years (2031/32 – 40/41)**
	£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 £0.543m to the revenue budget each year for the 15-year period to take account of debt charges.

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 (NELEP) grants;
- Non-Government, Lottery and European grants;
- 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 NELEP 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 and European funding programmes now largely committed in the North East LEP area, the Council continues to access and investigate funding opportunities linked to the UK's Industrial Strategy and the Levelling Up agenda. Recent funding secured for major projects include support from the Housing Infrastructure Fund for the South Sunderland Growth Area project, Transforming Cities Fund support for the redevelopment of Central Station, and Future High Streets Fund support for a city centre transformation programme. The Council has also secured Getting Building Fund approval for two new capital projects to support digital and strategic infrastructure in the city centre and riverside areas, and for investment in additional energy infrastructure on the Hillthorn Business Park site in Washington. The Council is awaiting the outcome of its round 1 bid to the Levelling Up Fund and intends to develop two further bids to future rounds of the fund. It is also awaiting further consultation and guidance on the UK Shared Prosperity Fund and City Region Sustainable Transport Fund both of which should offer additional capital funding opportunities for the city in the next 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 the Arts Council to support the delivery of the City Plan.

Apart from a number of existing capital projects that are currently being delivered, there are no further opportunities to access EU funding, and specifically the European Regional Development Fund. All current EU funded projects must be completed by the end of 2023.Local government continue to lobby for a UK successor programme that will operate beyond 2021 and that will adequately replace European Structural Fund programmes such as the European Regional Development Fund and European Social Fund.

The UK Shared Prosperity Fund will be launched later this year and that it will operate from 2022. Its coverage will reflect local and regional priorities set out in the North East Strategic Economic Plan.

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 1st April 2022.

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.

- 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 2017 and places greater emphasis on assessment of the long-term impact of the capital programme on the wider financial context and the approach to the risk management of the capital programme.

  Given the pressure on the Council's revenue budget, prudent use has been made of borrowing 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).

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.

Any investment asset bought primarily for yield which was acquired after 26 November 2020 would result in the authority not being able 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 PWLB will not lend to a 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*

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 2021/2022 to 2024/2025 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 broadly 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

	2025/26 £m	**2030/31 £m**	**2035/36 £m**	**2040/41 £m**
Capital Financing Requirement	877.543	811.349	738.055	645.804
Existing External Debt	388.679	363.659	354.007	354.063
Additional External Debt Requirement	488.864	447.690	384.048	291.741
Net Debt Charges	34.510	37.230	39.750	35.823

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 table 3 below. This shows the Council's existing projected debt repayment profile through the Minimum Revenue Provision (MRP) (liability benchmark) set against the existing repayment profile implied by the actual maturity profile of borrowing taken out by the Council. The table suggests that the Council will have a cash surplus in the long term and that projected debt repayments through MRP will not match actual debt repayments. However, following consultation and advice from the Council's treasury advisers, Link Asset Services, the Council has taken the decision to borrow over longer-term periods. This borrowing has been taken out where it offers good value and to allow for the potential to benefit from refinancing debt in the future. A further benefit is that it reduces risk by giving certainty of borrowing rates over the long term.

Table 3

	Loan Debt Maturities	Liability Benchmark	% Variance	Permitted Range
< 1 year	2%	1%	1%	0% - 50%
1 – 2 years	1%	1%	0%	0% - 60%
2 – 5 years	2%	5%	3%	0% - 80%
5 – 10 years	6%	10%	4%	0% - 100%
10 – 20 years	2%	23%	21%	0% - 100%
20 – 40 years	24%	46%	22%	0% - 100%
> 40years	62%	15%	47%	0% - 100%

5.5 Borrowing Limits
All external borrowing and investment undertaken is subject to the monitoring requirements of the Prudential Code. Under the Code, 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 2021/2022 to 2024/2025 as approved by Council in February 2021.

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 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" 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 ASSET MANAGEMENT PLANNING

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

7.2 When prioritising investment, it is essential to understand the long-term cost 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.

7.3 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.

7.4 In line with best practice, Cabinet will consider development plans for Highways and other infrastructure assets during 2021/22 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.

8 OTHER LONG-TERM LIABILITIES

8.1 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.

8.2 As at 31st March 2021 the Council held £65.219m long-term liabilities in respect of PFI schemes;

- Waste Management Partnership £45.601m;
- Street Lighting and Highways Signs £13.838m; and
- Sandhill View £5.779m.

8.3 The Council also held finance leases liabilities of £8.652m at 31st March 2020 mainly in respect of Sunniside Multi Storey car park and the City Library building and embedded vehicle leases.

8.4 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.

8.5 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.

9 KNOWLEDGE AND SKILLS

9.1 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.

9.2 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.

9.3 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.

9.4 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.

9.5 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.

10 CONCLUSION

10.1 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.