

**CABINET MEETING – 16 OCTOBER 2025**

**EXECUTIVE SUMMARY SHEET- PART I**

**Title of Report:**

Budget Planning Framework and Medium-Term Financial Plan 2026/2027 – 2029/2030

**Author(s):**

Director of Finance

**Purpose of Report:**

This report:

- Identifies the key factors influencing the development of the Council's financial plans into the medium term and sets out the budget planning framework for the Council for 2026/2027;
- Sets out the headlines and context for the Medium-Term Financial Plan (MTFP) 2026/2027 to 2029/2030;
- Sets out the consultation / communication strategy for the budget 2026/2027; and
- Seeks a recommendation to Council for the approval of the updated Capital Strategy.

**Description of Decision:**

Cabinet is recommended:

- To note the summary MTFP set out at section 3 of the report and note that the full MTFP 2026/2027 to 2029/2030 will be presented to Cabinet in February 2026;
- 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 2026/2027;
- To approve the consultation / communication strategy for the Budget 2026/2027 as set out at section 6 of the report; and
- Recommend to Council approval of the Capital Strategy.

**Is the decision consistent with the Budget/Policy Framework?**

Yes, it is seeking to inform a future decision to change the Budget and Policy Framework for 2026/2027.

**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 2026/2027; and
- To enable constitutional requirements relating to the development of the Revenue Budget to be met.

**Alternative options to be considered and recommended to be rejected:**

There are no alternative options recommended for approval.

**Impacts analysed:**

Equality  Privacy  Sustainability  Crime and Disorder

**Is the Decision consistent with the Council's co-operative values?** Yes

**Is this a "Key Decision" as defined in the Constitution?** Yes

**Is it included in the 28 day Notice of Decisions** Yes

**BUDGET PLANNING FRAMEWORK AND MEDIUM-TERM FINANCIAL PLAN  
2026/2027 – 2029/2030**

**DIRECTOR OF FINANCE**

**1. Purpose of Report**

1.1 This report:

- Identifies the key factors influencing the development of the Council’s financial plans into the medium term and sets out the budget planning framework for the Council for 2026/2027;
- Sets out the headlines and context for the Medium-Term Financial Plan (MTFP) 2026/2027 to 2029/2030;
- Sets out the consultation / communication strategy for the Budget 2026/2027; and
- Seeks a recommendation to Council for the approval of the updated Capital Strategy.

**2. Description of Decision**

2.1 Cabinet is recommended:

- To note the summary MTFP set out at section 3 of the report and note that the full MTFP 2026/2027 to 2029/2030 will be presented to Cabinet in February 2026;
- 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 2026/2027;
- To approve the consultation / communication strategy for the Budget 2026/2027 as set out at section 6 of the report; and
- Recommend to Council approval of the Capital Strategy.

**3. Medium-Term Financial Plan (MTFP) 2026/2027 to 2029/2030**

3.1. The MTFP 2025/2026 to 2028/2029 was approved by Council in February 2025 as part of the 2025/2026 budget setting process. The MTFP is continually updated to reflect changing circumstances and latest known information. The full MTFP 2026/2027 to 2029/2030 will be presented to Cabinet in February 2026.

3.2. Given the ongoing significant uncertainties relating to Government funding, economic factors and future pressures on Council services, the focus of this report is on the 2026/2027 budget. Key points to note which impact on the Budget Planning for 2026/2027 and beyond are set out at section 3.3 onwards.

## National and Economic context to the 2026/2027 budget

- 3.2.1 Following a reduction in the Base Rate to 4.00% in August, on 18 September 2025 the Bank of England's (BoE) Monetary Policy Committee (MPC) voted 7-2 to keep the Base Rate at 4.00% with notes from the meeting stating that a gradual and careful approach to further rate cuts remained appropriate.
- 3.2.2 Annual Consumer Prices Index (CPI) inflation was 3.8% in the year to August 2025, remaining the same from July. This figure reflects a slight increase from earlier in the year, driven by developments in energy and food prices. From 2026 onwards, CPI inflation is forecast to fall throughout the year towards the 2.0% target at the end of the calendar year.
- 3.2.3 As at 31 August 2025, the Council achieved a rate of return on its investments of 4.14% during 2025/2026, compared with the benchmark rate SONIA (Sterling Overnight Index Average) rate of 4.23%. Performance in the financial year to date is slightly lower than the benchmark rate, whilst still adhering to the prudent policy agreed by the Council. This is, in part, due to falls in the rates available on fixed-term deposits as markets factored in the expected cut to the Bank of England (BoE) Base Rate and also the need to maintain balances on call in support of the Council's capital programme and general expenditure.
- 3.2.4 the Office for National Statistics (ONS) report that gross domestic product (GDP) grew by 0.2% in the three months to July 2025. Monthly GDP is estimated to have shown no growth in July 2025, following growth of 0.4% in June 2025 and a fall of 0.1% in May 2025. The BoE's Quarterly Monetary Policy Report shows that UK GDP is expected to be in the region of 1.2% for Q3 2025, rising to 1.7% by Q3 2028.

### **3.3. Central Government Funding for Local Government**

- 3.3.1 The Government launched its technical consultation in respect of the Fair Funding Review on 20 June 2025 which sought views on the approach to local authority funding reform through the Local Government Finance Settlement from 2026/2027 affecting local authorities and fire and rescue authorities in England.
- 3.3.2 The consultation covered: determining local authority funding allocations; approach to consolidating funding; measuring differences in demand for services and the cost of delivering them; measuring differences in locally available resources. It also covered the long-term approach to the business rates retention system. The consultation ran for an eight-week period from 20 June to 15 August 2025.
- 3.3.3 The consultation is referred to by the Government as Fair Funding Review 2.0 (FFR 2.0), which seeks to distinguish it from the review undertaken by the previous government in December 2018. Analysis of the FFR 2.0 consultation proposals would indicate that the Council is unlikely to benefit from the proposed redistribution of funding allocations for local government and is likely to see a reduction in funding received through Government grants and business rates.
- 3.3.4 The Government have not provided details of the impacts of their proposals on individual authorities, and the proposals remain unclear in some areas. The forecasts are therefore open to interpretation with regards to the scale of the funding reforms that will be implemented (particularly the specific grants that will be consolidated and how the council tax equalisation process will work across the

three years of the CSR) and the timing with which these funding changes are implemented (whilst the Government have committed to implement from 1 April 2026, the reforms are likely to be phased in across three years).

- 3.35 In addition, a number of updated datasets will be used by the Government when funding allocations are confirmed including the mid-year 2024 population estimates published at the end of July and the 2025 Index of Multiple Deprivation due for publication in mid-Autumn.
- 3.36 It is likely that the Government will introduce measures to protect councils whose funding allocations would significantly reduce, to ensure these councils do not face a financial cliff edge. It is proposed that these measures will be funded through the overall quantum of funding allocated to local government and are likely to be in place for three years aligned to the spending review period.
- 3.37 The consultation confirms that local authorities will receive a 3-year (“multi-year”) settlement covering the period 2026/2027 to 2028/2029, which is the first time this will have occurred for ten years and is helpful from a financial planning perspective.
- 3.38 The consultation seeks to try and simplify and reduce the number of formulae used to determine the allocations to individual councils. The Ministry for Housing, Communities and Local Government (MHCLG) is proposing to reduce the number of Relative Needs Formulae (RNF) from fourteen to seven. Many of the existing RNF measurements are significantly out of date (many pre-date 2013). Given this, it is inevitable that there will be significant changes once updated formulae and data is applied.
- 3.39 In terms of the FFR 2.0 proposals, the Government has outlined its broad approach assessing both needs and resources. The Government will use RNF to assess differences in demand between councils for different functional service areas (some of which were functional areas measured back in 2013, and some of which are new to the proposed new formulae measurement). As with previous reviews of funding allocations, an Area Cost Adjustment (ACA) will then be applied to each RNF to account for the different costs of delivering services in different places. The RNFs and ACAs are then combined to give each council an overall “relative needs share”, by weighting each RNF according to the size of (national) expenditure on that functional service area.
- 3.3.10 RNF are a measure of the demand and costs each council faces in the delivery of a selected group of local services, compared to other councils. The seven RNF’s to be used from 2026/2027 onwards (underlying formulae to be updated) are as follows:
- Adult Social Care – previously used in 2013/2014;
  - Children and Young People’s Services - previously used in 2013/2014;
  - Foundation formula (upper tier) – previously used in 2013/2014;
  - Foundation formula (lower tier) – previously used in 2013/2014;
  - Highways Maintenance – previously used in 2013/2014 ;
  - Home to School Transport – new for 2026/2027 onwards; and
  - Temporary Accommodation – new for 2026/2027 onwards.
- 3.3.11 The overall Needs Assessment calculates a percentage for each council, which represents their share of the total need for local government services in England.

The Relative Needs Share represents the overall share of Central Government funding each council should receive determined by the aggregated series of RNF. MHCLG are proposing to then weight each of the factors within the Relative Needs Share using historic service expenditure to determine an overall weighted Needs Assessment. The Council's overall weighted Needs Assessment is forecast to be 0.5234% of the national total, which is a 6.26% decrease on our current weighted needs share of 0.5584% (which was set in 2013/14).

- 3.3.12 The weighted Needs Assessment for North East councils (LA12) is 4.99% (compared to 5.05% in 2013/2014) – an average reduction of 1%. The reduction is attributed in part to the reduced share of adult social care relative needs in many councils across the North East compared with the national position, combined with losses for some urban councils in highways maintenance, due to changes proposed in this RNF which favours those councils with a largely rural road network and will no longer factor in impacts of high volumes of traffic on more urban road networks.
- 3.3.13 In terms of the Resources Adjustment / Council Tax Equalisation, in order to account for differing council tax raising abilities the Government is proposing to multiply each council's tax base (the number and band of properties) by a notional level of council tax. The notional council tax available to be raised is added to the current quantum of grant funding available to local government and the level of retained business rates available nationally, to give the total notional amount of funding available to local government. This funding resource is then allocated according to each Council's Weighted Needs Assessment. Each council's notional tax contribution is deducted from their resources, to give each council a Settlement Funding Assessment (SFA), which indicates how much a council needs relative to one another.
- 3.3.14 This approach attempts to ensure those councils with lower council tax raising powers, due to having for example a higher proportion of properties in council tax bands A to C, are not disadvantaged, benefitting councils like Sunderland. It does however mean that councils like Sunderland, where the actual level of council tax is lower than the notional national band D level, are not compensated through additional grant as the Government take the view that council tax levels are a matter of local choice. On a number of occasions, the Council has not implemented the maximum permitted council tax increases keeping bills lower for our residents, whereas other councils have, and the Council will therefore not receive additional grant funding from the Government to offset the council tax income foregone.
- 3.3.15 As has historically been the case, in figures to be published later this year, the Government will continue to factor into its Core Spending Power calculations for councils an assumed annual 4.99% increase in council tax.
- 3.3.16 Many of the named specific grants currently within the 2025/2026 Core Spending Power (CSP) calculation will be rolled into the SFA from 2026/2027 onwards. The SFA refers to the determined level of central Government grant for councils in England, known as Revenue Support Grant, alongside the fixing of the distribution of business rate revenue between councils. The latter task involves the setting of redistribution provisions for business rates revenue (using 'tariffs and 'top-up' grant funding to manage this distribution). These sums, together with several other grants, make up the Council's SFA.

- 3.3.17 The grants which are expected to be rolled into the SFA distribution include: New Homes Bonus, the Recovery Grant (which was only introduced as a one-off grant to relatively deprived authorities in 2025/2026, and which significantly benefitted the Council), the Social Care Grants, the Employer National Insurance Grant and (potentially) the Children' Social Care Prevention Grant.
- 3.3.18 By rolling the Recovery Grants and Social Care Grants into the wider SFA distribution, the Council will lose out in net terms, as these grant funding streams (which were created in recent years to support relatively deprived councils with high demand for social care services), is likely to be distributed to a wider group of councils based on a series of formulae which cover a wider range of needs assessment which are not as beneficial for the Council.
- 3.3.19 Clearly given the changes proposed and the financial impact, councils up and down the country have responded to the consultation proposals advocating various and different changes to the proposed formula and weightings in order to improve their individual outcomes.
- 3.3.20 The Council has responded to the consultation independently as well as through SIGOMA, additionally it has written to Ministers as part of the LA7 (the councils which make up the North East Combined Authority) and also jointly with a number of councils from across the country with similar concerns on the proposals. Suggestions made include ensuring deprivation is more highly weighted, reducing the weighting for non-resident population and remoteness, retaining the higher weighting for urban highways and preserving some existing funding streams and their distribution methodology, for example the social care grant and the recovery grant which the council benefited from significantly in 2025/2026, rather than rolling these into the overall funding distribution.
- 3.3.21 Following confirmation that the Autumn Budget will take place on 26 November, the Government have indicated that a policy statement and comprehensive response to the FFR 2.0 consultation will be published in late October / early November. It is likely that updated RNF will be published taking into account of updated data sets and any reflections from the Government following the consultation. Any changes will be reflected in an update in relation to budget planning at the appropriate time.
- 3.3.22 Given the interactions between the Autumn Budget and the Local Government Finance Settlement, particularly for the business rates system, are significant, with the Autumn Budget usually confirming measures such as business rates multipliers and reliefs, the provisional Local Government Finance Settlement is unlikely to be published any earlier than week commencing 15 December. It is only at that stage that individual council allocations will be confirmed.

### **Public Health Funding**

- 3.3.23 At this stage, it is envisaged that Public Health Grant funding will not be rolled into the overall local government funding position following FFR 2.0. There remains a risk however that the Council could lose significant funding should the Government adopt a different allocation methodology. Budget planning currently assumes no change in the Council's Public Health Grant allocation.

## **Other Government Grant funding streams**

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

- The Business Rates multipliers have historically increased in line with inflation (CPI). At this stage the Government has not confirmed the exact approach given the proposed business rates reset and separate business rates revaluation exercise being undertaken by the Valuation Office Agency. The MTFP assumes no further changes beyond the assessed outcome of FFR 2.0.
- 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 2026/2027.

## **Schools Funding / Special Education Needs**

3.325 At the time of writing this report, no further announcements have been made in relation to the Dedicated Schools Grant for 2026/2027. Further updates will be brought to Cabinet in future reports during the course of developing and setting the 2026/2027 Budget.

## **3.4 Summary Funding Position Over Medium Term**

3.4.1 Based on the updated assumptions outlined above, in respect of the outcome of the elements contained within FFR 2.0, it is estimated that there will be an adverse impact from the change in Government funding of circa £2.760m in 2026/2027, circa £7.244m in 2027/2028 and circa £6.606m in 2028/2029 in line with the implementation period of the changes following FFR 2.0 when compared with the previous assumptions. Further clarity will emerge following the Policy Statement and the Government's response to the FFR 2.0 consultation ahead of the Autumn Budget on 26 November and the Provisional Local Authority Finance Settlement in mid-December.

## **3.5. Provision for Spending Pressures and Commitments 2026/2027 to 2029/2030**

3.5.1 In addition to funding changes, the Council must also plan for a range of spending pressures and commitments.

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

### **Pay Award**

3.5.3 The National Joint Council (NJC) employer offer of a 3.2% increase to the pay award for the 2025/2026 financial year has recently been accepted. Provision for a 3% pay award was factored into the 2025/2026 approved budget. Based upon the current pay offer, this would create an additional cost of c.£0.186m for the Council and its wholly owned companies, beyond that included in the Council's 2025/2026 revenue budget. This additional impact has been factored into the

MTFP for future years alongside an assumption of a 3% increase for 2026/2027 and 2.5% in subsequent years. The position will be kept under review throughout the budget process.

## Energy

- 3.5.4 The Council, as part of the 2023/2024 budget which remained the position in 2024/2025, provided for significant increases in respect of the Council's energy requirements, based on the forecast prices at the time driven by geopolitical factors. Subsequently, wholesale prices have reduced, leading to a revised, lower, forecast cost for 2025/2026 and into 2026/2027 but prices still remain in excess of previous levels.
- 3.5.5 At present the MTFP provides for the latest forecast energy costs for 2026/2027 with the impact into the medium term continuing to be potentially affected by many global factors.

## General Contracts

- 3.5.6 There is upward cost pressure on the Council's services due to the impact on general costs and contracts as a result of inflation. Current CPI inflation of 3.8% is not expected to decline further for the remainder of the financial year and is forecast to remain above the Bank of England's target until May 2026 at the earliest.
- 3.5.7 Provision is included within budget planning for the impact of general contract inflation, including on contracts, any impact of the National Living Wage and significantly the Council's commitment to the Real Living Wage for contractors. This includes contract inflation for both Sunderland Care and Support (SCAS) and Together for Children (TfC), the costs of which fall on the Council's general fund.
- 3.5.8 Provision for inflationary increases where appropriate in discretionary fees and charges has been included within budget planning following review by Directorates. An updated schedule of fees and charges for 2026/2027 will be published in line with the fees and charges policy.
- 3.5.9 A small number of minor pressures identified during routine budget monitoring have been included within pay and price provision.

## Spending Pressures

### Adults Demand Pressures

- 3.5.10 Pressures in both the NHS and Adult Social Care continue with the number of older people requiring care increasing. In Sunderland, it is forecast that the number of older people aged 65 years and over will rise from around 58,300 in 2025 to 69,500 by 2040 (an increase of 19%) and the number of people aged 80 years and over (i.e. those generally with the greatest care needs) is forecast to rise from around 7,600 in 2023 to 11,600 in 2040 (an increase of 53%). This gives a sense of the mounting pressure that Sunderland's ageing population is likely to have on the delivery of Adult Social Care.
- 3.5.11 The longevity of the population continues to place a significant pressure on Adult Social Care budgets. In addition, client expectations and increasing demand to support clients with complex needs to enable them to maintain independent living

requires reconfigured services and additional investment. The Council and its NHS partners are working together informally to integrate health and care and to develop plans collectively to enable the organisations to achieve more than they can individually to improve health and care outcomes and reduce health inequalities in Sunderland.

- 3.5.12 Demand for social care packages to support hospital discharges has increased significantly, with more people who are leaving hospital needing more complex care. 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.
- 3.5.13 The National Living Wage represents a significant cost pressure for local authorities as service providers, particularly in the social care sector, endeavour to recover the impact of these increased costs through annual inflationary uplifts to contract prices. Prudent provision has been included within the budget planning in relation to assumed increases.
- 3.5.14 Provision for additional increased Adult Social Care costs of £10.209m relating to inflationary cost and demand pressures has been included in the MTFP for 2026/2027 and will be kept under review.

#### Children Services Pressures

- 3.5.15 Together for Children (TfC) is forecasting in-year pressures of £5.1m largely driven by external factors in the main through increased costs arising from the complexity of children's needs and finite capacity in the residential market which is driving higher prices being charged for accommodation alongside increased cost of home to school transport. Provision for inflationary and demand cost increases of £6.505m are included in the MTFP for 2026/2027 will help to mitigate these cost pressures moving forward.

#### Supported Housing and Homelessness

- 3.5.16 The Council is currently anticipating significant additional cost pressures in relation to supporting homelessness and temporary accommodation. Whilst an internal review is currently underway, additional cost pressures of £0.846m have been added to the MTFP for 2026/2027. Based on current assumptions increased cost pressures are expected to continue for the remainder of the MTFP with a total overall cost pressure of £5.432m expected by 2029/2030.

#### Capital Financing

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

### **Summary Spending Pressures and Commitments**

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

	2026/27	2027/28	2028/29	2029/30	Total
	£m	£m	£m	£m	£m
<b>Spending Pressures and Commitments</b>					
Pay	6.649	5.698	5.947	6.028	<b>24.322</b>
Energy	(2.698)	0.500	0.500	0.500	<b>(1.198)</b>
Adult Social Care Inflation and Demand Pressures	10.209	6.659	6.285	7.018	<b>30.171</b>
Children's Social Care Inflation and Demand Pressures	6.505	1.189	1.204	1.220	<b>10.119</b>
Supported Housing and Homelessness	0.846	1.418	1.568	1.600	<b>5.432</b>
Transport Levy	0.619	0.545	0.562	0.578	<b>2.305</b>
Other Service Pressures & General Inflation	(1.364)	0.908	0.759	0.761	<b>1.064</b>
Reduction in Contingencies	0.000	0.000	(1.709)	0.000	<b>(1.709)</b>
Capital Financing	3.000	3.000	3.000	3.000	<b>12.000</b>
<b>Total Spending Pressures and Commitments</b>	<b>23.768</b>	<b>19.917</b>	<b>18.116</b>	<b>20.705</b>	<b>82.506</b>

### 3.6 Summary Resources, Pressures and Commitments Position

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

- Government funding announcements, including the outcome of the Fair Funding Review and the subsequent Local Government Finance Settlement confirmation for 2026/2027, to confirm the actual individual local authority allocations. This is expected to be announced in mid-December;
- The ongoing impact of the global economy and inflation on the Council's costs and income, namely pay, energy, supplies and demand on services;
- Ongoing pressures around both Adult and Children's Social Care;
- Confirmation of delivery of existing savings plans and the development and implementation of any new proposals;
- The impact of capital investment priorities both in terms of debt charges and any associated operational costs; and
- The general economic position and the direct impact on public sector finances.

3.6.2 The financial position over the medium term therefore remains uncertain. In line with previously agreed proposals the Council is fully utilising its medium-term planning smoothing reserve over the period which helps mitigate the position. However, based on the best information available at this time, further significant reductions to budgets are required through to 2029/2030 based on a funding gap of £91.657m.

	2026/27	2027/28	2028/29	2029/30	Total
	£m	£m	£m	£m	£m
Government Grant Changes	5.038	6.220	5.562	(4.648)	<b>12.173</b>
Previously Approved Savings Proposals	(2.683)	(1.739)	1.400	0.000	<b>(3.022)</b>
Total On-going Spending Pressures and Commitments	23.768	19.917	18.116	20.705	<b>82.506</b>
<b>Initial Funding Gap</b>	<b>26.123</b>	<b>24.398</b>	<b>25.077</b>	<b>16.058</b>	<b>91.657</b>

### 3.7 Locally Raised Income

#### Council Tax

3.7.1 The Localism Act provides for the provision of referendums to veto excessive Council Tax increases. This effectively places a limit on council tax increases and

if local authorities exceed the Government's limit the public are able to vote to agree or veto any increase.

- 3.7.2 In recent years the Government's funding calculations have been based upon the assumption that local authorities will increase council tax by the maximum permitted amount, including continuing to levy the social care precept that was introduced in 2016/2017. The Government has confirmed that the referendum limit will be 5% for 2026/2027 and for the following two years consisting of 2.99% for core council tax and 2% for the social care precept.
- 3.7.3 Decisions on the level of council tax will be made as part of the final budget planning stages once all other funding factors are fully understood. However, at this stage given the financial challenges, the MTFP assumes an annual increase of 4.99%.

### **Business Rates**

- 3.7.4 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.
- 3.7.5 Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. However, there remains uncertainty from appeals and avoidance tactics which can impact on the level of income achieved. The most significant opportunity for Business Rates growth arises through new developments, although growth in Business Rates in our three Enterprise Zones and Investment Zone will be accounted for separately, as this is used to support the investment in those sites. As part of FFR 2.0 the Government is proposing a reset of business rates including historic growth with funding then redistributed in line with the overall funding distribution. Growth from 2026/2027 onwards will be able to be retained by the Council until such time as there is a further reset and redistribution. The time period for this is yet to be confirmed by the Government but has been indicated to be every three or every six years.
- 3.7.6 As with council tax, the impact of inflationary cost pressures and reduced consumer demand may impact on collectability and business survival as we move in to winter and then 2026/2027. The position will be kept under review and required adjustments reflected in the Budget Planning Framework as appropriate during the budget setting process.

### **3.8 Remaining Budget Gap**

- 3.8.1 After taking into account the information in section 3 above, there is currently a funding gap of £16.267m (£25.267m) before taking into account the planned use of £9m from the MTFP reserve) in 2026/2027, with a total gap of £64.279m over the MTFP period, 2026/2027 to 2029/2030. 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 2026. Based on current planning assumptions for council tax and business rates income, the overall MTFP position is set out in the table below:

	2026/27	2027/28	2028/29	2029/30	Total
	£m	£m	£m	£m	£m
Initial MTFP Gap	26.123	24.398	25.077	16.058	91.657
Council Tax - 2.99%	(4.129)	(4.356)	(4.596)	(4.849)	(17.930)
Adult Social Care Precept - 2%	(2.762)	(2.914)	(3.074)	0.000	(8.749)
Collection Fund Impact	(2.966)	(2.200)	(2.238)	(2.295)	(9.699)
MTFP Reserve	0.000	2.877	6.123	0.000	9.000
<b>Revised MTFP Gap</b>	<b>16.267</b>	<b>17.806</b>	<b>21.293</b>	<b>8.913</b>	<b>64.279</b>

### 3.9 Approach to addressing the funding gap

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

3.9.2 The Council's Efficiency Strategy was approved by Council in February 2025. The Strategy set out a continual and iterative development of a programme of activity to address the gap taking into account the strategic vision of the Council's role in the future and reflecting the following key principles:

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

3.9.3 In support of the above, the Council has developed its Future Council transformation programme. The programme will focus on reviewing how the Council delivers its services, not only to deliver financial efficiencies but to ensure that there is continuous improvement across all services delivered by the Council for residents and businesses.

### **3.10 Reserves and Balances**

- 3.10.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when considering the budget requirement.
- 3.10.2 In accordance with the approach adopted to date, all earmarked reserves will be revisited as part of the budget process to ensure they still accord with the Council's priorities and overall funding position.
- 3.10.3 A Statement of General Balances is attached at Appendix 1a with the current schedule of Earmarked Reserves at Appendix 1b.

## **4. Budget Planning Framework 2026/2027 to 2029/2030**

- 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 outcome of the FFR 2.0 and the Local Government Finance Settlement;
  - Provision for spending commitments be included at this stage on the basis set out at section 3 and kept under review;
  - Spending priorities be considered in line with service improvement plans and in light of available resources during the budget process;
  - Budgets be prepared on the basis that all spending pressures not specifically identified in this report as commitments be accommodated within Directorate existing budget envelopes;
  - All commitments against reserves and general balances as set out in Appendix 1a and Appendix 1b to be reviewed and updated throughout the budget process; and
  - The position regarding any increase in core council tax and the social care precept to be considered as part of the budget process.
- 4.2 In accordance with the budget planning framework agreed for 2025/2026 the budget process for 2026/2027 will be completed on the basis that the savings plans in the 2025/2026 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, priorities and ambitions as set out in the City Plan and the Corporate Plan. The updated strategy is provided at Appendix 3.

## **5 Workforce Planning Implications**

- 5.1 Given the remaining budget gap for 2026/2027 and future years it is anticipated that proposals may have a workforce planning implication. Any 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 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 2026/2027**

- 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. Although further work is required to generate significant savings for 2026/2027 and beyond, the budget consultation in 2025 for the 2026/2027 budget will focus on feeling informed, the priorities and ambitions within the City Plan and views on how Council budget resources are prioritised and allocated.
- 6.3 Clear messages focusing on the longer-term budget challenge, the scale of what we do and how the money is spent will accompany this consultation. This will be consistent with the Council's successful approach to resident engagement.
- 6.4 Existing networks will be utilised to communicate with both geographic communities and communities of interest. There will be communications with a range of partners and stakeholders including Trades Unions, Chamber of Commerce, Sunderland Business Innovation District (BID), the wider business community, employees, and the city's Independent Advisory Groups. Communications with these groups will be tailored to their interests, for example, economic regeneration, neighbourhood services and adult services.
- 6.5 Scrutiny Coordinating Committee will be consulted on the budget planning process.
- 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 2026.

## **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). It is not envisaged that any proposals developed would have a negative impact.

## **8 Integrated Impact Assessment**

- 8.1 In accordance with the Council's approach to assessing predicted impacts of activity, Integrated Impact Assessments (IIAs) will be applied to the budget setting process. The IIA approach enables the Council to give due regard to the impacts of activity on:
- i. Equality and Human Rights, including ensuring the Council meets the three aims of the Public Sector Equality Duty (Appendix 2);
  - ii. Socio-economic and digital inequalities;
  - iii. Population health and health inequalities;
  - iv. Low carbon and sustainability; and
  - v. Community wealth building, including the duty on local authorities to

consider the impact of all their functions and decisions on crime and disorder in their local area.

- 8.2 Each service must consider the predicted impacts of any new proposals brought forward to meet the future budget gap and complete an IIA. Completed IIAs will be presented with future Cabinet reports, along with a summary of the cumulative predicted impact of the proposals.
- 8.3 Members must understand the implications of the proposals outlined in the IIAs, as having regard to them will assist members in understanding the impact of decision and in complying with the Public Sector Equality Duty when considering the proposals.

## **9 Suggested Reasons for Decision**

- 9.1 Adoption of the Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2026/2027.
- 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 2025/2026 and Medium-Term Financial Plan \(19 February 2025 Council\)](#)

### **Appendices**

Appendix 1a – Statement of General Fund Balances  
Appendix 1b – Major Earmarked Reserves  
Appendix 2 – Equality and Budget Proposals  
Appendix 3 – Capital Strategy 2026/2027

## Statement of General Fund Balances

	£m
<b>Balances 31 March 2025</b>	<b>14.000</b>
<b>Use of / Addition to Balances 2025/2026</b>	
Contribution to Revenue Budget	0.000
<b>Estimated Balances 31 March 2026</b>	<b>14.000</b>

## Major Earmarked Reserves

Reserves	Purpose of the Reserve	Opening Balance 01.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 01.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 01.04.2027 £m	Forecast Movement in 27/28 £m	Opening Balance 01.04.2028 £m	Forecast Movement in 28/29 £m	Opening Balance 01.04.2029 £m
<b>General Fund</b>										
General Fund Balances	General Fund of the Council	14.000	0.000	14.000	0.000	14.000	0.000	14.000	0.000	14.000
School Balances	Balances held by schools under a scheme of delegation	9.330	(0.997)	8.333	(1.500)	6.833	(1.500)	5.333	(1.000)	4.333
<b>Earmarked General Fund Reserves – Capital</b>										
Culture Development Reserve	To support a range of cultural developments in the city centre, utilising smart cities technology and immersive technologies.	3.000	(3.000)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HIF HE Recycling Strategy Reserve	A reserve established to manage the recycled Homes England grant relating to Housing Infrastructure Fund investment.	4.424	(3.934)	0.490	0.000	0.490	0.000	0.490	0.000	0.490
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	4.160	(0.012)	4.148	(2.089)	2.059	(1.576)	0.483	0.000	0.483
Riverside Transfer Reserve	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	0.484	(0.099)	0.385	0.000	0.385	(0.385)	0.000	0.000	0.000
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.274	(0.216)	1.058	0.218	1.276	0.223	1.499	0.227	1.726

## Appendix 1b (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 01.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 01.04.2027 £m	Forecast Movement in 27/28 £m	Opening Balance 01.04.2028 £m	Forecast Movement in 28/29 £m	Opening Balance 01.04.2029 £m
<b>Earmarked General Fund Reserves – Revenue</b>										
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.	24.122	(9.000)	15.122	(9.000)	6.122	(6.122)	0.000	0.000	0.000
Strategic Regeneration Reserve	A reserve to support the Council's regeneration ambitions, specifically to smooth any revenue impact of projects until they become self-sustaining.	10.774	0.000	10.774	(0.513)	10.261	(0.400)	9.861	(0.400)	9.461
Health and Social Care Reserve	Additional external income from in-year Health funding to support health and social care services in Sunderland in the short to medium term.	7.123	(5.705)	1.418	(0.537)	0.881	(0.035)	0.846	0.000	0.846
General Risk and Inflation Reserve	Reserve established in response to significant inflationary and trading pressures and risks that may impact council services in the short to medium-term.	11.012	(1.625)	9.387	(3.129)	6.258	(3.129)	3.129	(3.129)	0.000
Streetscene and Open Space Reserve	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.	3.995	(1.857)	2.138	(1.385)	0.753	(0.035)	0.718	(0.035)	0.683
Public Health Reserve	Ringfenced Public Health grant funding, to deliver future public health initiatives.	5.321	0.000	5.321	0.000	5.321	(1.245)	4.076	0.000	4.076
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	4.954	(1.746)	3.208	(0.103)	3.105	(0.045)	3.060	0.000	3.060
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.007	0.000	5.007	0.000	5.007	0.000	5.007	0.000	5.007
SIB Reserve	A reserve held for projects funded through the Strategic Initiatives Budget.	3.811	(1.000)	2.811	(1.000)	1.811	(1.000)	0.811	(0.811)	0.000
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.	3.716	(0.720)	2.996	(0.788)	2.208	(0.830)	1.378	(0.403)	0.975
Smart Cities Reserve	This reserve was established to set aside revenue funding to cover 8-10 years, to support 5G and Wireless technology within the City.	3.390	(0.650)	2.740	(0.700)	2.040	(0.750)	1.290	(0.800)	0.490

## Appendix 1b (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 01.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 01.04.2027 £m	Forecast Movement in 27/28 £m	Opening Balance 01.04.2028 £m	Forecast Movement in 28/29 £m	Opening Balance 01.04.2029 £m
<b>Earmarked General Fund Reserves – Revenue</b>										
HCA Stadium Park Reserve	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	3.263	0.000	3.263	0.000	3.263	0.000	3.263	0.000	3.263
Low Level Family Support Reserve	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.	2.315	(1.138)	1.177	(0.979)	0.198	(0.198)	0.000	0.000	0.000
House Sale Income Reserve	The reserve relates to the sale of client's homes that will be utilised to support future support needs of those clients.	2.135	(0.204)	1.931	(0.204)	1.727	(0.205)	1.522	0.000	1.522
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	2.153	(0.100)	2.053	(0.100)	1.953	(0.100)	1.853	(0.100)	1.753
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	(0.622)	1.529	(0.776)	0.753	(0.593)	0.160	0.000	0.160
Carbon Reduction Reserve	This reserve has been established to deliver of a range of activities that will support progress against carbon reduction targets	2.070	(0.690)	1.380	(0.690)	0.690	(0.690)	0.000	0.000	0.000
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.	1.060	(0.250)	0.810	(0.250)	0.560	(0.250)	0.310	(0.250)	0.060
Culture House Reserve	A reserve to support the cultural programme in the city centre.	1.084	(1.084)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Earmarked Revenue Reserves	Numerous revenue reserves excluding those over £1m set up for specific purposes.	24.961	(5.979)	18.982	(5.024)	13.958	(2.443)	11.515	(1.199)	10.316
<b>Total General Fund Reserves</b>		<b>161.089</b>	<b>(40.628)</b>	<b>120.461</b>	<b>(28.549)</b>	<b>91.912</b>	<b>(21.308)</b>	<b>70.604</b>	<b>(7.900)</b>	<b>62.704</b>
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	17.766	0.393	18.159	0.000	18.159	(18.159)	0.000	0.000	0.000
Capital Grants Unapplied Reserve	Balance of capital grants held pending expenditure on capital programme.	2.865	0.000	2.865	0.000	2.865	0.000	2.865	0.000	2.865
<b>Total Usable Reserves</b>		<b>181.720</b>	<b>(40.235)</b>	<b>141.485</b>	<b>(28.549)</b>	<b>112.936</b>	<b>(39.467)</b>	<b>73.469</b>	<b>(7.900)</b>	<b>65.569</b>

### Equality and Budget Proposals

#### 1 Equality in Decision Making

- 1.1 The Equality Act 2010 places a specific duty on Local Authorities through the Public Sector Equality Duty. The three aims of the equality duty are to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act;
  - Advance equality of opportunity between people who share a protected characteristic and those who do not; and
  - Foster good relations between people who share a protected characteristic and those who do not.
- 1.2 Public authorities are required to give 'due regard' to the three aims of the duty when making decisions. Understanding the effect of decisions on people with different protected characteristics is an important part of complying with the general equality duty. Due regard means:
- consider the need to remove or minimise disadvantage or to meet particular needs;
  - think about how to encourage participation in public life; and
  - tackle prejudice and promote understanding.

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

- 2.1 Service proposals for savings are reviewed using the Integrated Impact Assessment (IIA) screening tool to determine whether an IIA is required. Where IIA's are required, the tool asks a number of questions that supports the Council to give 'due regard' to equality and wider considerations. An IIA will be applied proportionally, considering service risk, opportunity and ensuring the needs of the most vulnerable groups are considered.
- 2.2 IIAs prompt the Council to:
- **Be intelligence, insight and evidence led** - using data and intelligence to shape planned activity;
  - **Assess impact** - assess the potential positive, negative and neutral impacts of activity;
  - **Be equitable** - recognise that each person, or community, has different circumstances and allocate resources and opportunities needed for them to achieve an equal outcome;
  - **Be innovative and bold** - maximise opportunities to achieve additional benefits from planned activity and acknowledge and mitigate, where possible, any negative impacts;
  - **Work collaboratively** - work together across the council, and with our partners and communities; and
  - **Demonstrate due regard has been given to key Council commitments** - ensuring the predicted impacts of decisions are documented to enable transparent and evidence-based decision making.

- 2.3 Activity that promotes equity, reduces inequalities and contributes to improved outcomes, has the potential to reduce financial burdens on the public sector in the longer term. Consideration of equality issues as well as wider impacts on the city must influence our decisions, including how we act as employers; how we develop, evaluate and review policy; how we design, deliver and evaluate services, and how we commission and procure from others.
- 2.4 The IIA tool provides a drop-down menu to indicate what the impacts will be for various groups, including those with protected characteristics, and other vulnerable groups / people with complex needs. There is space in the IIA to describe:
- the impact the activity will have;
  - how to maximise positive impacts;
  - how you propose to mitigate any negative impacts; and
  - how you will seek information where you are uncertain of the impact.

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

### **3 Key Messages for 2026/2027**

- 3.1 For 2026/2027 financial planning, there are no specific savings proposals brought forward to be considered in this report. However, as plans are identified to address the budget gap, equality implications will be part of the considerations.
- 3.2 As the report outlines above, there are a number of national and local issues that have the potential to impact on equality in the city, namely:
- The need for a long-term sustainable solution for social care;
  - The possibility of reduced funding for Public Health following the implementation of the Fair Funding Review; and
  - Focus on the cost of living crisis, inflation and associated impacts.

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

### **4 Conclusions**

- 4.1 The Council continues to seek to meet its obligations in relation to equality and diversity and has procedures in place at both a general and budget specific level to incorporate equality and diversity issues into decision making processes and the assessment of proposals. The application of IIAs is integral to the Council's approach.
- 4.2 Services and directorates are responsible through IIAs for ensuring equality considerations are integral to their functions, and ensuring these considerations are presented to decision makers at the appropriate junctures.

## CAPITAL STRATEGY 2026/2027

### 1. INTRODUCTION

#### 1.1 Background

- 1.1.1 The overarching aim of the Council's Capital Strategy ("the Strategy") is to provide a framework within which the Council's capital investment plans will be prioritised and delivered in line with the City Plan (2025 – 2035) and the Corporate Plan with an overall ambition that by 2035 Sunderland will be a connected, international city with opportunities for all. This reflects the ongoing commitment to ensure the Council puts residents and customers at the heart of everything we do, reflecting the diversity of the city.

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

- 1.1.2 The Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management in the Public Service Code of Practice were updated by the Chartered Institute of Public Finance and Accountancy in December 2021.
- 1.1.3 The Prudential Code refers to the need for a clear and integrated treasury strategy which, by the application of set prudential and treasury management financial indicators enables the Council to assess and monitor the prudence, affordability, and sustainability of the capital programme.
- 1.1.4 The updated Prudential Code includes the following as the focus of the substantive changes:
- The provisions in the code, which prevent the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have been augmented to be clear that borrowing for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.
  - Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.
  - A new requirement has been added so that capital strategies are required to report investments under the following headings: service, treasury management and commercial investments.

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

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

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

## **2.0 OBJECTIVES OF THE CAPITAL STRATEGY**

2.1 The key objectives of the Capital Strategy are to:

- provide a clear set of objectives and a framework within statutory legislation that enables proposed new capital expenditure to be evaluated to ensure that all new capital investment is targeted at achieving the shared vision 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 the delivery of the ambitions contained in the City Plan 2025-2035 and the medium-term priorities of the Corporate Plan 2025-2028;
- set out how the Council identifies, programmes, and prioritises capital requirements and proposals arising from business plans submitted through an appraisal mechanism;
- provide a long-term view of capital expenditure plans and risks faced by the Council over the life of assets;
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area, whilst minimising the ongoing revenue implications of any such investment;
- provide a basis for the projection of external debt and provision for repayment of that debt over the life of the underlying debt based on the approved capital programme and capital resources available;
- consider the resources available for capital expenditure over the longer term;
- ensure the strategy has an overall balance of risk on a range of investments over timespan, type of investment and rate of return, confirming that knowledge and skills available to the Council are commensurate with the Council's investment risk appetite; and
- establish effective arrangements for the management and monitoring of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.

## 2.2 Capital Priorities

The Council's Capital Priorities are aligned to the "City Plan 2025-2035" which is the Sunderland Partnership's overarching strategic plan, providing the blueprint for all partners (including the Council) and communities to work together to pursue and achieve the shared vision for Sunderland to become a connected, international city with opportunities for all..

The Council has also adopted a corporate plan as an expression of its strategic organisational priorities over the medium-term in the context of the City Plan. The Corporate Plan 2025-2028 defines the key areas of focus for the Council to play its full part in achieving the vision for Sunderland; it provides the 'future council' context for the organisation's ongoing transformation; and it supports the allocation of resources and the setting of clear objectives.

City Plan ambitions which are underpinned by the Corporate Plan's medium-term priorities include ensuring:

- Everyone's talent is nurtured - our children and young people are achieving the best outcomes, everyone is connected to opportunities, and whatever your aspiration, you can achieve it in Sunderland
- Inward investment, job creation and high performing businesses and employers create opportunities for all residents of the city, with Sunderland making a significant contribution to the UK's economic growth
- People live healthier, longer lives - health and wellbeing outcomes are significantly improved and life is better because we live in Sunderland, rather than any other place
- Sunderland is a place recognised for its natural assets; the city has an accessible, strong and growing offer for residents and visitors - it's easy to find something that captures the imagination in Sunderland
- Our people and communities thrive and feel proud, and are stronger together; everyone is playing their part
- Sunderland will play its role in tackling the global challenge of climate change, working together across the city to be carbon neutral by 2040

To support the achievement of these ambitions, the Council's Capital Priorities are aligned to the three underpinning themes of the City Plan:

- Sunderland will be a **Dynamic Smart City** with more businesses, housing and cultural opportunities creating a stronger city centre. Children and young people will have equitable opportunities and the best life chances with poverty and its impacts significantly reduced. More city residents will have great skills and qualifications sought by employers, and there will be increased employment in more jobs that are fulfilling and better compensated. It will have great digital technology supporting a low carbon city, with great transport links with low carbon and active travel opportunities for everyone;
- It will be a **Healthy Smart City** where more people live healthier, longer lives as health inequality gaps are reduced. It will be a clean and attractive city where people feel safe in their communities and all neighbourhoods. There will be more and better housing and great support and social care that enables those who need it to live the life they want to lead; and
- It will be a **Vibrant Smart City** with more resilient residents and cohesive, inclusive communities in the face of ongoing challenges including the cost-of living crisis. More people will visit Sunderland with more residents shaping and participating in cultural or sporting events. There will be a strong sense of pride amongst residents and communities will feel engaged in shaping Sunderland's future and the opportunities being created. More residents will be active and participating in their communities.

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

As it works to deliver against the City Plan ambitions, the Council has a set of outcomes that are everyone's business and responsibility across the organisation with all Cabinet Portfolios and council services playing their part:

- By ensuring health is at the heart of everything we do, the health and wellbeing of all the city's residents is significantly improved, inequalities are reduced, and everyone has the opportunity to lead a healthy and happy life;
- An inclusive, cohesive city for everyone who calls Sunderland their home and those who visit, work, learn and invest in the city;
- Increased prosperity for the whole of the city's population with reduced poverty and greater financial resilience;
- As a smart council, services harness advanced technology to enrich the lives of residents, boost economic growth, and pave the way for a smarter, more connected future, leaving no one and nowhere behind;
- By ensuring low carbon is a key consideration in decision-making and delivery, the Council becomes carbon neutral by 2030, preparing for and adapting to the impacts of climate change and playing a key role in enabling Sunderland to make real progress towards its goal of becoming carbon neutral by 2040; and
- A council that makes the best use of resources and delivers the best services possible for residents and businesses.

## 2.3 Partnership working and investment opportunities

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

2.3.2 The Council will ensure that strong partnership arrangements are in place to enable truly collaborative working with regional partners. This includes the key partnerships of the Tyne and Wear City Region (including the LA7) and the North East Combined Authority.

## 3.0 CAPITAL EXPENDITURE

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

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

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

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

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

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

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

## 3.2 Governance of the Capital Programme

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

3.2.2 The Council has mechanisms in place which seek 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 2025/2026 – 2028/2029

The current approved capital programme commits substantial resources over the four years to 2028/2029 and can be viewed at [Capital Programme 2025/2026 - 2028/2029](#).

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 rationale for its priority level. In addition, Directors undertake a full review of the existing capital programme to confirm that planned projects remain a priority for the Council.

#### Stage 2 - Initial Review and Challenge

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

#### Stage 3 - Corporate Strategic Review and Prioritisation

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

#### Stage 4 - Member Review and Challenge

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

### 3.5 Monitoring of the Capital Programme

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

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

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

- Revisions to timelines and significant changes in anticipated outcomes.

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

### 3.6 Longer Term Planning

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

3.6.2 The Council's capital programme, as approved in February 2025 and taking into account any subsequent approved variations, covers the period through to 2028/2029 and totals £444.591m. In addition, new capital scheme proposals to commence from April 2026 are currently being developed and are to be considered by Cabinet in February 2026 and then full Council in March 2026 prior to their commencement.

Table 1 below provides a high-level minimum estimate of the capital requirement over the subsequent 15-year period commencing 2028/2029. The totals provided reflect the recurring elements of the capital programme necessary to maintain the status quo of asset groups. Non-recurring projects / initiatives, such as regeneration projects, are excluded from this analysis given their one-off nature.

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

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

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

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

<b>Asset Group</b>	<b>Forecast Requirement 5 Years (2029/30 – 33/34)</b>	<b>Forecast Requirement 10 Years (2034/35 – 43/44)</b>
	<b>£m</b>	<b>£m</b>
Highways (1)	10.000	20.000
Property (2)	13.750	27.500
Vehicles (3)	20.000	40.000
ICT (4)	2.500	5.000
<b>TOTAL</b>	<b>46.250</b>	<b>92.500</b>

Assumptions:

- (1) Highways – £2.000m per annum average rolling programme of planned maintenance works and improvements. This estimate does not include investment supported by external funding received by the Council from the Department for Transport, which has historically totalled c. £5m per annum or funding received from the North East Combined Authority.
- (2) Property - £2.750m per annum average rolling programme of planned property capital maintenance.
- (3) Vehicles - £4.000m per annum average rolling fleet refresh programme.
- (4) ICT and Connectivity – £0.500m per annum average rolling refresh of user devices and core infrastructure.

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

The level of investment noted in table 1 above would result in an average annual spend of £9.250m. This level of additional borrowing would require an increase of around £0.849m to the revenue budget each year for the 15-year period to take account of debt charges.

### 3.7 Housing Revenue Account

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

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

## 4.0 FUNDING APPROACH

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

- UK Government;
- North East Combined Authority (NECA);
- National Lottery distributors, Trusts and Foundations;
- Developer Private / Partnership Funding;
- Enterprise / Investment Zone Finance and Tax Incremental Finance;
- Capital Receipts and Council reserves; and
- Prudential Borrowing.

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

### 4.1.1 UK Government and Regional Funding

Grants are allocated by Government departments to specific programmes or projects on a competitive or formula basis. The Council seeks to maximise such allocations, developing appropriate projects and programmes which address priority needs in the city. Following closure of European funding programmes at the end of 2023 and with Local Growth Fund and Getting Building Fund programmes completed, the Council continues to explore and secure new opportunities as they are announced by Government and other key funding bodies.

In recent years, significant capital funding has been secured for key projects such as:

- £25m from the Housing Infrastructure Fund to support the delivery of vital infrastructure to unlock new housing delivery in the South Sunderland Growth Area.
- £25m Future High Streets Fund grant to support a city centre transformation programme including the delivery of Culture House and other key projects to improve Keel Square and High Street West.
- £25m through the North East 'Trailblazer' Devolution Deal towards Riverside Sunderland Site Enabling and Preparation Works.
- £21m from the Transforming Cities Fund to support the redevelopment of Sunderland Central Station and other priority transport investments.
- £20m Levelling Up Fund grant to support the City Centre Housing Ecosystem project, which comprises the construction of the Housing Innovation and Construction Skills Academy, and support for the delivery of two sustainable housing developments in Riverside Sunderland (Vaux) and Sunnyside (Nile and Villier).
- £7m Getting Building Fund grant 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.
- £30m Brownfield, Infrastructure and Land Fund grant to accelerate the ongoing transformation and implementation of the Riverside Sunderland masterplan.
- £15m Green Heat Network Fund grant to support construction of a city-centre heat network.

The Council continues to work with the NECA and Government departments and agencies, including Homes England, to secure additional funding to support its ambitious capital programme. This includes funds to support and unlock strategic infrastructure and key brownfield housing sites, such as West Park, Farringdon Row, Sheepfolds and Nile and Villiers. Capital funding has also been secured to support delivery of the city's low carbon objectives, through the Public Sector Decarbonisation Fund and new opportunities such as through the Mayoral Renewal Energy Fund continue to be progressed. Grant funding has also been approved to support the research, development and deployment of smart infrastructure and digital technologies, including from Innovate UK and the Department for Science, Innovation and Technology.

Significant project development and design work is underway to progress several priority transport projects as part of the City Region Sustainable Transport Settlement (CRSTS). Approximately £30m of CRSTS grant is being sought to support the delivery of road/junction improvements, public transport and cycling infrastructure projects between 2024/25 and 2026/27. Transport funding has also been secured through recent rounds of the Government's Active Travel Fund, supporting projects such as the Pallion New Road / European Way Cycle Route, the A183 Whitburn Road Cycle Route, and the A1018 St Peters / Dame Dorothy Street Cycle Way.

The Council secured £15m grant in December 2022 to deliver Sunderland's UK Shared Prosperity Fund (UKSPF) Investment Plan. An additional allocation of UKSPF grant funding for the 2025/26 Transition Year was confirmed in December 2024. Although this programme comprises predominantly revenue funding, the Council as accountable body for Sunderland's programme, working closely with the Sunderland UKSPF Investment Panel (on behalf of the Sunderland Partnership), has been able to provide 14 of the 27 UKSPF projects with targeted capital grant funding under the 2 key investment priorities of Communities and Place and Supporting Local Business.

Specific Government grants have also been secured to support planned capital expenditure, enabling investment in the maintenance of public transport infrastructure, school buildings and provision of Disabled Facilities, and decarbonisation of Council buildings including community assets, business centres and leisure venues.

#### 4.1.2 Non-Government and European grants

The Council and its partners continue to access and explore new opportunities to invest in the city's cultural and heritage offer, while also improving and enhancing access to recreation facilities and natural green spaces across the city. This involves pursuing other sources of funding, such as the National Lottery Heritage Fund, Sport England, Historic England, National Lottery Community Fund, Arts Council England, Football Foundation and other trusts / foundations. Capital bids for funding have been submitted in 2025/26 to support the delivery of the Sunderland Museum and Winter Gardens Redevelopment and the Sunnyside Creative Hub. Recent funding awards have also been secured to support library improvement projects in Houghton and Washington, as well as a nature conservation project in the former Coalfields area.

#### 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 the 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 / Investment Zones:

The Council has three live Enterprise Zone sites: A19 Low Carbon Zone, land at the Port of Sunderland and IAMP Phase 1 and an Investment Zone incorporating the International Advance Manufacturing Park Strategic Site. The Government's Enterprise Zone and Investment Zone models allows all business rates growth generated by the relevant zone to be retained for a period of 25 years. To unlock sites locally, a model of forward funding the required infrastructure work, whereby local authority borrowing is financed through the future flow of business rates growth receipts, is in place with the NECA.

To date, the three sites have secured significant investment to date, as follows:

- £41m Local Growth Fund grant and £34m EZ Business Rate Growth Income (BRGI) to support the International Advanced Manufacturing Park (IAMP).
- £4.7m Local Growth Fund grant and £15.8m EZ grant / BRGI to support the Sunderland A19 Hillthorn Farm site.
- £8.2m investment in key Port of Sunderland sites/infrastructure.

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 of.

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 2026/2027.

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

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

Receipts realised will be used to assist the Council's long term financial position. This will involve appraisal of the options to maximise revenue benefits, which could include:

- Repayment of existing debt;
- Mitigating requirements for future borrowing requirements in delivering the capital programme priorities;
- Funding of Transformation Projects that will deliver efficiencies; and
- Funding additional priorities.

- Capital Reserves

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

- Lease finance

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

- Revenue

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

- Prudential "unsupported" borrowing

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

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

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

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

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

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

## 5.0 DEBT, BORROWING AND TREASURY MANAGEMENT

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

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

Under the Prudential Code, local authorities have discretion over the funding of capital expenditure and the level of borrowing they wish to undertake to deliver their capital plans and programmes. However, capital spending plans must be affordable, sustainable, and prudent. To demonstrate this, the Council's longer term financial needs, alongside a projection of forecast external debt and borrowing, are detailed within the Prudential and Treasury Indicators 2025/2026 to 2028/2029 and within the Treasury Management Strategy Statement. This is approved annually by Council.

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

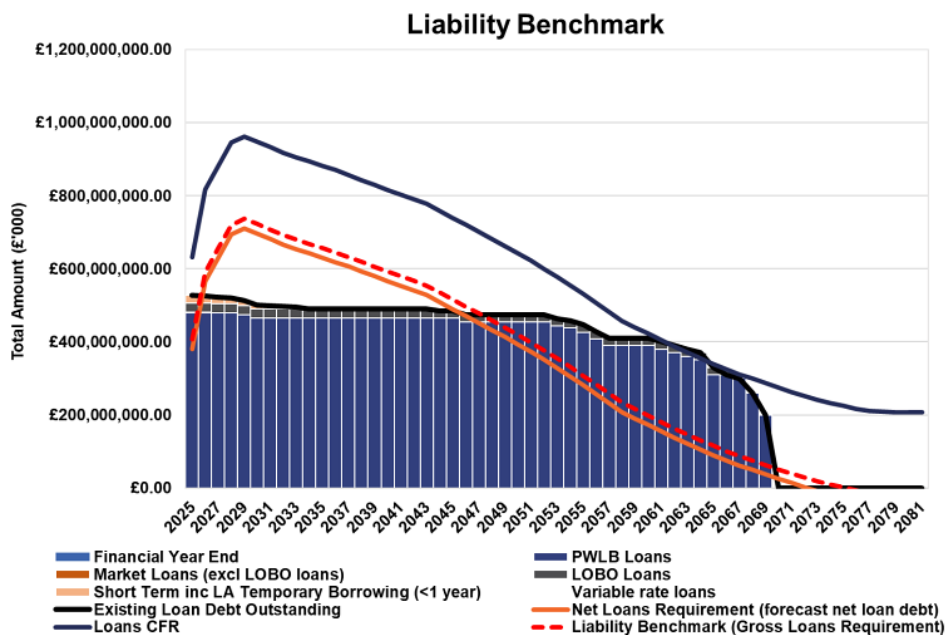
5.4 The CFR quantifies capital expenditure that has not yet been paid for from revenue or capital resources. It measures the authority's underlying need to borrow for a capital purpose. It does not increase indefinitely as it is decreased by the Minimum Revenue Provision, which reduces the borrowing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

Table 2

	2029/30 £m	2034/35 £m	2039/40 £m	2044/45 £m
Capital Financing Requirement	940.882	835.530	730.500	626.393
Existing External Debt	501.195	489.563	489.563	484.563
Additional External Debt Requirement	439.687	345.968	240.937	141.830
<b>Net Debt Charges</b>	<b>31.441</b>	<b>29.233</b>	<b>32.253</b>	<b>31.508</b>

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

5.4 The liability benchmark for the Council is shown in the chart below. From 2025 onwards it is projected for the next 20 years that the Council will be under-borrowed against its requirements. This will mean that additional borrowing will be required but the Council will manage that, as it always has, by monitoring interest rates and identifying the most appropriate borrowing opportunities. There may be occasions when the Council will opt to actively be under-borrowed to avoid excessive interest rate costs and manage financing requirements through internal resources.



## 5.5 Borrowing Limits

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

Further details are included within the Prudential and Treasury indicators 2025/2026 to 2028/2029 as approved by Council in February 2025.

## 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 Minimum Revenue Provision (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 the funding of Council services.
- 6.2 In recent years, a number of local authorities have increased their property portfolio for purely commercial / income generation reasons, often outside of their geographic area. This practice has drawn concern from both CIPFA and the Ministry for Housing, Communities and Local Government (MHCLG) around the risk and security of funds from such commercial activity. MHCLG has subsequently updated its Statutory Investment Guidance, which requires that authorities:
- Prepare an investment strategy for approval by full Council once a year;
  - Disclose the contribution that investments make "toward the service delivery objectives and / or place making role of the local authority";
  - Include indicators that enable assessment of the authority's investments and decisions taken;
  - Must not "borrow in advance of need" to profit from the investment of the sums borrowed. This requirement now applies to non-financial investments (e.g., investment in commercial property that is solely commercial) rather than financial instruments. In the past, investment in commercial property would have counted solely as capital expenditure and so could have been funded by borrowing; and
  - If they do borrow in advance of need for profit, authorities must set out the reasons for their non-compliance in the strategy and their risk management arrangements.
- 6.3 To date, the Council has not entered any investment decisions (outside of Treasury Management transactions) that solely focus on the commercial return of that investment. Whilst some capital developments and loan agreements in place have a commercial rate of return, and this is considered as part of any decisions approved, all such investments are principally to support the regeneration and economic sustainability of the city. The Council has no property assets defined as "investment assets" held on its balance sheet.
- 6.4 The Council has prepared this investment strategy to comply with the statutory guidance issued by the MHCLG. 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 follows 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 the CIPFA or the MHCLG.

## **7 ENVIRONMENTAL SUSTAINABILITY**

- 7.1 Sunderland is a thriving city and is home to businesses from all industries who are driving innovation and solutions to help tackle the climate change crisis and support the city's target of net-zero commitment by 2030. Businesses and stakeholders from across the private and public sectors are working together to invest in climate action and make the city resilient to future challenges and build a better future for the residents. There are many innovative and exciting projects being undertaken to support Sunderland's net-zero commitment and to help the city meet its climate change target.
- 7.2 The Council has a significant role to play in supporting the city to transition to net-zero carbon, the capital programme includes investment, which will help facilitate the Council's 2030 net-carbon target.

## **8 ASSET MANAGEMENT PLANNING**

- 8.1 The Council has a responsibility for assets used in service delivery including property, highways infrastructure and vehicles, plant and equipment. It is essential to understand the need, utilisation, condition and the investment and operating costs associated with the Council's asset portfolio.
- 8.2 When prioritising investment, it is essential to understand the whole life costs of maintaining and operating existing assets, having consideration of which are deemed essential in continued service delivery or which can be considered for alternative uses.
- 8.3 Approved Asset Management Plans are in place for property assets that demonstrate the Council's stewardship of assets. A disposal strategy is also in place to relinquish or find alternative beneficial uses for assets deemed surplus to requirements.
- 8.4 In line with best practice, Cabinet will consider development plans for highways and other infrastructure assets during 2025/2026 and updates on property asset management plans already developed. The Council's approach to asset management and stewardship of assets will be supported by targeted internal and external reviews to assess the effectiveness of asset management practices including governance, risk management and control.

## **9 OTHER LONG-TERM LIABILITIES**

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

- 9.2 As at 31st March 2025 the Council held £65.648m long-term liabilities in respect of PFI schemes;
- Waste Management Partnership £47.937m;
  - Street Lighting and Highways Signs £10.188m; and
  - Sandhill View £7.523m.
- 9.3 The Council also held finance leases liabilities of £106.075m at 31st March 2025 mainly in respect of City Hall, Hillthorn Business Park, Keel Square Hotel, the City Library building and embedded vehicle leases.
- 9.4 The Council has entered a number of joint venture partnerships and as at 1<sup>st</sup> April 2025 provided loans to the following:
- Sunderland Lifestyle Partnership - In June 2015 the Council entered a joint venture (JV) partnership, known as Sunderland Lifestyle Partnership, with Sports & Leisure Management Ltd (SLM), to manage and operate the city's leisure facilities. The JV is a private company limited by shares and is owned by the Council and SLM in equal shares (50:50) and is managed by a board of directors with an equal number of representatives from each party; and
  - IAMP LLP - This joint venture has been established with South Tyneside Council to deliver the International Advanced Manufacturing Park to the north of Nissan. Both parties own 50% of the LLP. Land currently held by IAMP has been financed through Local Growth Funding grant and member loans in the form of Loan Notes.

The Council also has the following Financial Guarantees in place:

- Future possible payments may be required to Gentoo (formerly the Sunderland Housing Group) under the terms of the Transfer Agreement established between the Council and Gentoo for claims relating to non-environmental and environmental warranties. This agreement was drawn up as part of the Large-Scale Voluntary Transfer which took place on 26th March 2001 which transferred all Council Housing and related assets to Gentoo;
- In addition to this, the Council acts as a guarantor to the Tyne and Wear Pension Fund in respect of pensions for employees who were originally employed by the Council but transferred to Gentoo in March 2001; and
- The Council also acts as a joint guarantor (along with other councils) to the Tyne and Wear Pension Fund in respect of pensions for employees of several bodies such as the Association of North East Councils (ANEC) and the North East Regional Employers Organisation (NEREO). The councils involved have agreed with the Pension Fund administrators that, in the unlikely event of any of these bodies failing, any pension deficit would be repaid over an agreed repayment period. Independently, the Council has similar arrangements in place for possible pension deficits with several other organisations.

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

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

## 10 **KNOWLEDGE AND SKILLS**

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

10.2 To ensure appropriate skill levels are available within the Council, suitable officers are provided with the opportunity to undertake professional training.

10.3 The Council uses MUFG Corporate Markets 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 provider. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

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

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

## 11 **CONCLUSION**

11.1 The Council has a long-established history of strong financial management. This Capital Strategy does not 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.