

Audit and Governance Committee

15th February 2010

REFERENCE FROM CABINET – 10TH FEBRUARY 2010

Capital Programme - Third Review 2009/2010, Provisional Resources 2010/2011 and Treasury Management Review 2009/2010

Report of the Director of Financial Resources

1. Why has this report come to the Committee?

- 1.1 To report for advice and consideration of this Committee extracts of a report considered by Cabinet on the 13th January 2010 on the Capital Programme Third Review 2009/2010, Provisional Resources 2010/2011 and Treasury Management Review 2009/2010, relating specifically to Treasury Management.
- 1.2 Members' views are requested in accordance with the Committee's new role to carry out scrutiny and review of all Council Treasury Management reports.

2. Background and Current position

- 2.1 Members of the Committee will recall that the Council has already reviewed its Treasury Management reporting arrangements to ensure compliance with best recommended practice and as a result this Committee now receives Treasury Management reports on a quarterly basis for scrutiny and review. This is the second such report which has been brought to this Committee for review.
- 2.2 It should be noted that the revised reporting and scrutiny arrangements that the Council has adopted in relation to Treasury Management, is now included in the recently published Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (Fully Revised Second Edition 2009) – (new code) by the Chartered Institute of Public Finance and Accountancy (CIPFA) as best practice.

A separate report is included elsewhere on today's agenda which sets out the requirements of the revised code in more detail and how these have been addressed in the proposed Treasury Management Strategy for 2010/2011.

- 2.3 This report sets out the results of a review of the progress made in implementing the Council's Treasury Management Strategy for

2009/2010 which includes the Borrowing Strategy and the Annual Investment Strategy for the current financial year, 2009/2010.

2.4 Attached are the relevant extracts of the report submitted to Cabinet:

- Sections 7 and 8 of the main report, and
- Appendices B and C

In summary these show that the:

- Council's Treasury Management Strategy for 2009/2010 is being fully complied with;
- Council is operating well within all of its key Prudential Indicators
- Council carried out some debt restructuring in 2008/2009 to make interest payment savings, the details and rationale for which is detailed in the report at paragraph 7.5.

3 Conclusion

3.1 The report is referred to this Committee for advice and consideration. Any comments or issues will be reported back to Cabinet.

4 Recommendation

4.1 The Audit and Governance Committee is invited to note the report and to give advice and consideration on the attached report of the Director of Financial Resources as appropriate.

5. Background Papers

5.1 Cabinet Agenda, 10th February 2010

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CABINET MEETING – 13th January, 2010
EXECUTIVE SUMMARY SHEET- PART I

Title of Report:

Capital Programme - Third Review 2009/2010, Provisional Resources 2010/2011 and Treasury Management Review 2009/2010

Author:

Director of Financial Resources

Purpose of Report:

This report details the outcome of the Third Review of the Capital Programme for 2009/2010, shows provisional capital resource allocations for 2010/2011 and provides an update on progress in implementing the Treasury Management Borrowing and Investment Strategy for 2009/2010.

Description of Decision:

Cabinet is recommended to:

In relation to the Third Review of the Capital Programme for 2009/2010:

- approve, and where necessary recommend to Council, the inclusion of additional schemes for 2009/2010 detailed at Appendix A and associated resourcing of the Capital Programme since the Second Review of the Capital Programme was reported to October Cabinet;
- approve the tendering of a contract for the replacement of school windows referred to at paragraph 4.1 within the report;

In relation to the Capital Programme for 2010/2011:

- agree to the allocation of resources as set out in paragraph 6, subject to any adjustment when final announcements are made;
- note that Cabinet Members with Portfolios for areas covered by the Children's Services, Adult, Housing, Highways and Other Services Blocks will consider proposals for new starts based on the resource allocations outlined in paragraph 6 in order to incorporate proposed new starts in the Capital Programme to be presented to Cabinet in February 2010;

In relation to the Treasury Management Strategy for 2009/2010:

- to note the progress in implementing the Treasury Management Strategy for 2009/2010;
- endorse the amendments to both the Lending List Criteria set out in Appendix B and the Lending List set out in Appendix C.

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

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

To respond to variations in the Capital Programme which have arisen since the 2009/2010 second capital review to enable effective budgetary control to be exercised.

To note the progress in implementing the Treasury Management Strategy for 2009/2010, which is in line with the approved Treasury Management Policy and the revised authorised lending list which has been updated in light of changes in the financial sector and in institutions' credit ratings.

Alternative options to be considered and recommended to be rejected:

No alternative options are proposed.

Is this a “Key Decision” as defined in the Constitution? Yes -There are a number of key decisions – these relate to all new capital projects and variations detailed at Appendix A estimated to cost above £250,000 individually.

Is it included in the Forward Plan?

Yes provisionally - in light of the content of this report this was necessary.

Relevant Scrutiny Committee:

Management
Audit and Governance

Cabinet 13th January 2009

Capital Programme - Third Review 2009/2010, Provisional Resources 2010/2011 and Treasury Management Review 2009/2010

Report of the Director of Financial Resources

1. Purpose of the Report

- 1.1. This report details the outcome of the Third Review of the Capital Programme for 2009/2010, shows provisional capital resource allocations for 2010/2011 and provides an update on progress in implementing the Treasury Management Borrowing and Investment Strategy for 2009/2010.
- 1.2. This report specifically advises Members of:
 - reprofiling of projects since the Second Capital Programme Review was reported;
 - the inclusion of additional schemes and revisions to costs and resourcing for 2009/2010 since the Second Capital Programme Review was reported;
 - the overall updated Capital Programme following the Third Review;
 - latest notifications of supported capital allocations for 2010/2011;
 - the progress in implementing the Treasury Management Strategy for 2009/2010;
 - the updated Council lending criteria and list of authorised institutions.

2. Description of Decision:

2.1 Cabinet is recommended to:

In relation to the Third Review of the Capital Programme for 2009/2010:

- approve, and where necessary recommend to Council, the inclusion of additional schemes for 2009/2010 detailed at Appendix A, and amendments in resourcing the Capital Programme since the Second Review of the Capital Programme was reported to October Cabinet;
- approve the tendering of a contract for the replacement of school windows referred to at paragraph 4.1 within the report.

In relation to the Capital Programme for 2010/2011:

- agree to the allocation of resources as set out in paragraph 6 subject to any adjustments when final announcements are made;
- note that Cabinet Members with Portfolios for areas covered by the Children's Services, Adult Services, Housing, Highways and Other Services Blocks will consider proposals for new starts based on the resource allocations outlined in paragraph 6 in order to incorporate

proposed new starts in the Capital Programme to be presented to Cabinet in February 2010.

In relation to the Treasury Management Strategy for 2009/2010:

- note the progress made in implementing the borrowing and investment strategy for 2009/2010;
- endorse the amendments to both the Lending List Criteria set out in Appendix B and the Lending List set out in Appendix C.

3. Third Capital Review 2009/2010

3.1 Since the Second Capital Programme Review was reported to Council in October 2009, there are further proposed changes to the Capital Programme both in terms of expenditure and resourcing. This reflects changes during the year as notifications of additional schemes and resourcing are received and phasing of schemes is reviewed. In total, reprofiling and other adjustments have led to the 2009/2010 capital programme decreasing by £11.430 million from £117.420 million to £105.990 million. This decrease is due to the following reasons:

- Reprofiling of expenditure between 2009/2010 and future years.
- Additional fully funded schemes and cost variations notified since the Capital Programme was last reported.
- Technical adjustments (reflecting previously approved scheme adjustments).

4. Reprofiling of Expenditure between 2009/2010 and future years

Schemes where significant reprofiling of expenditure and resources are being proposed are set out below.

4.1 Children and Learning City

Building Schools for the Future (BSF)

At the time that the Second Capital review was reported, the ICT Managed service commencement date for Biddick school had still to be confirmed. The school have now made a decision to open the new buildings to pupils and to commence the full managed ICT service following the Easter holiday in April. It has therefore been necessary to reprofile expenditure of £0.385 million from 2009/2010 to 2010/2011. In addition, £0.085 million has been rephased from 2009/2010 to 2010/2011 to fund the revised timing of expenditure associated with ICT networking at St Robert's School.

Primary Strategy for Change (PSfC) / School Place Planning Review

The School Place Planning Review will continue to inform the priorities of the Primary Strategy for Change (PSfC). Detailed projects relating to these priorities are being formulated. This work is ongoing and at this stage it is necessary to reprofile £1.177 million of expenditure from

2009/2010 to 2010/2011 to reflect the latest estimates for site acquisitions and work profiles.

School Window Replacement Schemes

The Children's Services Asset Management Plan identified schools in need of window replacements. In order to secure best value, consideration has been given to identify the most appropriate method of procurement in line with the Council's procurement procedure rules. Cabinet is requested to approve the tendering of works at an estimated value of £0.995 million. It is anticipated that £0.200 million will be spent in 2009/2010 and that the balance of works costing £0.795 million will be completed in 2010/2011, of which £0.595 million has slipped from 2009/2010.

4.2 Responsive Services and Customer Care

Previous plans to consider a Cultural Quarter development as part of a broader Cultural Quarter project with regeneration partners are currently being reconsidered in the light of the reduced prospect of external funding.

4.3 Safer City

Old Sunderland Townscape Heritage Initiative

The recession and depressed property market have resulted in reduced interest in projects eligible for funding through the Old Sunderland Townscape Heritage Initiative which aims to improve properties in the area. Consequently the remaining budget of £0.940 million has been reprofiled into 2010/2011.

4.4 Attractive and Inclusive City

A19/A1231 Junction Improvements

Cabinet, at its meeting on 8th October 2008, agreed to enter into a Section 278 agreement with the Highways Agency (HA) to enable improvements to be carried out at the A19/A1231 junction at an estimated cost of £1.665m. The HA has revised the expenditure profile of the project and estimated expenditure of £0.833 million will now fall in 2010/2011.

Central Car Park

Following approval by Cabinet on 9th September 2009 to award a contract for the demolition of the Central Car Park the expenditure profile of the works has now been confirmed and it is necessary to reprofile £1.150 million into 2010/2011 to reflect the start of demolition works in May 2010.

Sunderland Strategic Transport Corridor (SSTC) Phase 2

Cabinet, at its meeting on 9th September 2009, agreed to proceed with the development of the SSTC to include a landmark bridge. The project is included in the capital programme at an estimated cost of £133.068 million funded by the Department for Transport, One North East and the City Council. Work is currently underway to develop the detailed bridge and highway design. The expenditure profile has been revised in line with the work streams associated with the programme. This has resulted in the need to advance expenditure of £1.032 million from 2010/2011 to 2009/2010. The timing of expenditure will be dependant on the progress of statutory approvals, outcome of site investigations and the timing and valuation of payments to consultants relating to the bridge and highway designs.

4.5 Sustainable Communities

Area Renewal

The neighbourhood renewal programmes in respect of Eppleton, Castletown and Hetton Downs have been reviewed taking into account progress with site acquisitions, given current market conditions and the finalisation of funding agreements with the Homes and Communities Agency. At this stage it is necessary to reprofile £4.428 million into 2010/2011 to reflect the revised renewal programme.

5. Additional Schemes and Cost Variations

A number of new or approved schemes have been added to the programme which are fully funded. Full details are set out at Appendix A with the major additions being summarised below:

5.1 Children and Learning City

BSF Wave 2 Project Resource Plan

As reported to Cabinet on the 4 November 2009 Sunderland's Readiness to Deliver submission for the next Wave of BSF has been approved by Partnerships for Schools. This approval allows Sunderland's second wave project to progress to the 'operational phase'. A number of tasks are scheduled to be completed by the end of the financial year including the recruitment of external support (as approved by Cabinet in November 2009), school surveys, school building plan drawings and scheme scoping. The capital programme has been increased by £0.300 million in 2009/2010 to reflect this expenditure, which it is proposed will be funded from the Council's Strategic Investment Reserve on a temporary basis until the resourcing of this phase of the BSF programme is finalised. A detailed project resource plan containing future year's expenditure and funding is being

developed and will be agreed as part of the Outline Business Case to be submitted to Partnerships for Schools and approved by Cabinet in September / October 2010.

Primary Strategy for Change (PSfC) / School Place Planning Review

It is proposed that only essential works relating to school capacity changes at Seaburn Dene Primary School are undertaken as the school planning process continues. Non essential refurbishment works such as flooring, decoration, new lighting and an electrical upgrade have been deferred subject to finalisation of the School Place Planning review. At this stage, the change to the scope of works has resulted in the overall costs being reduced from £0.750 million to £0.350 million, which will impact as a reduction of £0.285 million in 2009/2010 and £0.115 million in 2010/2011.

5.2 Safer City

Sunderland Museum and Winter Gardens LED Lighting

Funding of £0.070 million has been secured from the North East Improvement and Efficiency Partnership to install LED lighting at Sunderland Museum and Winter Gardens which will reduce energy and maintenance costs. The estimated cost of the installation work is £0.073 million with the balance of funding being met from the Tyne and Wear Museums Service.

5.3 Attractive and Inclusive City

Smart Ticketing

The City Council has received a share of additional Regional Funding Allocation from the Department for Transport in respect of Integrated Transport. The grant of £0.928 million will be passported to Nexus to enable the implementation of Smart Ticketing. Smart Ticketing will make public transport easier to use and link up transport and wider public services making them more accessible to customers. The intention is for customer to be able to load their regular travel products onto smartcards and a 'pay as you go' system to be accepted by transport operators across the North East. Card readers are to be installed at stations and on buses which will check passenger's entitlement to travel.

A19/A690 Junction Improvements

Cabinet at its meeting on 22 November 2006 agreed to enter into a Section 278 agreement with the Highways Agency (HA) to enable improvements to be carried out at the A19/A690 junction at an estimated cost of £1.500 million. The cost of the work has been funded from English Partnerships, the Private Sector and the City Council. Additional expenditure of £0.148 million in respect of irrecoverable VAT has been contained within the Local Transport Plan.

5.4 Healthy City

Herrington Park Café

Refurbishment works are required at Herrington Park Café prior to the operation of the café as a social enterprise scheme providing supported employment for people with disabilities. The works are estimated to cost £0.100 million (£0.050 million in 2009/2010 and £0.050 million in 2010/2011) and will be funded through existing resources allocated through the minor works and mental health capital budgets.

Adult Services – IT Schemes

A number of new IT schemes are proposed. These include:

- Managing Income – new solutions to support income collection and development of client statements for chargeable services;
- Telecare – securing additional functionality to the current call management system to enable the demands of evolving Telecare and Telehealth agendas to be met. This includes bespoke reporting, improved interfaces with Telecare and Telehealth equipment, improved call handling and management, and more support for emerging Telemedicine initiatives;
- Adults Information System – enhancing care management processes within the SWIFT care management system by simplifying the front end process for practitioners. This is needed to meet the requirements of the personalisation agenda, detailed in the recent White Paper ‘Putting People First’, where services are tailored around the individual with increased choices and more appropriate self directed support; and
- Document Management System – an upgrade to enhance document management within the SWIFT care management system. The project will enable management of unstructured data within Electronic Social Care Records and allow documents to be shared with partners improving the effectiveness of service delivery.

The above schemes will support the modernisation agenda and ensure compliance with Department of Health requirements. It is estimated that the cost of the schemes will be £0.353 million (£0.173 million in 2009/2010 and £0.180 million in 2010/2011) and £0.293 million of funding will be from delegated revenue surplus with the balance of £0.060 million funded from the North East Improvement and Efficiency Partnership.

6 Capital Resources 2010/2011

Announcements have been made by government departments giving details of the indicative Supported Capital Expenditure (Revenue) (SCE(R)) allocations to the Council for 2010/2011. The SCE(R)

provides revenue support for traditionally funded capital projects financed through borrowing. The Council is not restricted to borrowing up to its SCE(R), however any borrowing in excess of its SCE(R) will not be supported through any funding from the government.

Local borrowing levels must be set within the Authority's Prudential Limits, which will be reported to Council in March 2010.

Details of capital allocations by service block are shown below:

6.1 Children's Services

General Schools Capital Funding Allocations

Indicative allocations announced in April 2009 show Children's Services capital resources allocation of £13.926 million in 2010/2011. The Local Authority devolved formula capital allocations are subject to change to reflect revised pupil number information.

Funding for 2010/2011 will be through capital grants (SCE (C)) and supported borrowing allocations (SCE (R)) as set out below:

Capital Grant Funding (SCE (C)) of £12.264 million made up as follows:

- Local Authority Devolved Formula (Standards Fund) - £2.486 million (in addition £1.530 million Non-Voluntary Aided Schools and £0.060 million Academies funding was received in advance in 2009/2010);
- LA Devolved Formula VA Schools (Standards Fund) - £0.639 million
- Extended Schools - £0.256 million;
- Harnessing Technology - £1.042 million;
- Local Authority Co-ordinated Voluntary Aided Programme Allocation - £1.371 million;
- Primary Capital Programme (Strategy For Change) - £6.470 million;
- Modernisation – All School Needs Block - £0 (£2.252 million modernisation funding in relation to the 2010/2011 capital allocation was received in advance in 2009/2010 and £0.437 million received in advance in 2007/2008).

Supported Borrowing Funding (SCE (R)) of £1.662 million is made up as follows:

- Modernisation Fund - All Schools Needs Block - £0.234 million
- Basic Need - £0.865 million

- Schools Access Initiative - £0.513 million
- Children's Social Care - £0.050 million.

As part of the Children's Services grant allocations the Council has been allocated the following capital grants:

- Youth Capital Fund grant of £0.174 million.
- Sure Start, Early Years and Childcare grant of £1.050 million.

In addition to the above, Sunderland has previously been granted a total of £122.453 million support for the Building Schools for the Future Programme Wave 1. A sum of £117.411 million has already been provided up to and including 2009/2010 and there is a further £5.042 million available for 2010/2011.

As reported to Cabinet on the 4 November 2009 Sunderland's Readiness to Deliver submission for the next Wave of BSF has been approved by Partnerships for Schools (PfS). The indicative funding allocation provided by PfS is £137.297 million including BSF ICT funding.

6.2 Highways

Maintenance and Integrated Transport Schemes

The Local Transport Plan allocation is for all of the Tyne and Wear District Councils. The 2010/2011 allocation for Sunderland of £8.577 million includes an integrated transport element of £3.544 million in the form of a capital grant, an amount of £4.729 million in the form of SCE(R) for maintenance and £0.304 million capital grant for bridge maintenance schemes at the A1018 Bridge Street and Dame Dorothy Subways and the A1018 Stockton Road/Cowan Terrace Bridges.

6.3 Housing

Housing funding is made available through the Regional Housing Board. The allocation for 2010/2011 is still to be announced, but early indications suggest a reduction in funding as funds are diverted away from existing stock refurbishment to new builds. The allocation, once confirmed, will be in the form of capital grant. In addition, further grant funding from DCLG for Disabled Facilities Grants for 2010/2011 is still to be announced.

6.4 Adult Services

A grant allocation of £0.306 million has been notified for Adult Services comprising Adults Personal Social Services SCE (C) of £0.146 million and Mental Health SCE (C) of £0.160 million in 2010/2011.

6.5 General

It is proposed to continue the existing practice of allocating resources to Children's Services, Adult Services, Highways and Housing up to the limit of their allocation. In addition, capital receipts arising from any sale of assets specific to those services would be earmarked, however, in the current economic downturn receipts are forecast to be minimal. This approach follows existing policy set out within the Council's Capital Strategy.

7. Review of the Treasury Management Strategy for 2009/2010

Treasury Management Borrowing Strategy 2009/2010

- 7.1 The Borrowing Strategy for 2009/2010 was reported to Cabinet on 11th February 2009 and approved by Council on 4th March 2009. A half yearly review of the implementation of this strategy was reported to Cabinet on 7th October 2009.
- 7.2 The strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2009 at the time the Treasury Management Policy and Strategy was drafted was that variable rate borrowing was expected to become cheaper as the Base Rate was forecasted to fall to 0.50% by the end of March 2009.

Thereafter, variable rate borrowing was expected to remain at this level until Quarter 1 of 2010 before slowly rising to 4.0% over the following two years. The forecast for the long-term PWLB rates was for rates to fall in Quarter 2 2009 (i.e. 25 year loans – 3.95% and 50 year loans – 3.85% to 3.90%) and for rates to remain around these levels until Quarter 1 2010 before slowly increasing to 5.05% for 25 year loans and to 5.00% for 50 year loans by the end of 2011/2012.

As can be seen from the table below (showing the average borrowing rates from 1st April 2009 to 30th November 2009) the longer term rates have been higher than forecast and have not dropped to the levels anticipated, although they are showing a slight decline from rates at the beginning of the year.

2009/2010	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Q3 (Up to 30 Nov 2009) %
7 days notice	0.46	0.32	0.31
1 year	0.97	0.93	0.83
5 year	2.80	2.97	2.80
10 year	3.72	3.88	3.83
25 year	4.57	4.43	4.28
50 year	4.66	4.45	4.32

- 7.3 The strategy for 2009/2010 was to adopt a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.00% for long-term borrowing was set for 2009/2010.
- 7.4 Included in the strategy was provision for debt rescheduling. At this stage, no debt rescheduling has been undertaken in 2009/2010 as rates have not been considered sufficiently favourable.
- 7.5 However in 2008/2009 some debt rescheduling took place to the benefit of the Council with regard to the following transactions:
- November 2008 - £5.5 million of 11.75% loan stock matured;
 - January 2009 - £30 million of PWLB loans were prematurely repaid at a minimal cost, to take advantage of debt rescheduling opportunities.

To date £33 million of these loans have now been replaced with various smaller new loans from the PWLB but over a wide range of maturity dates (ranging from 3 years to 18.5 years). This policy means that the Council has spread its replacement loans of roughly £5 million tranches over a wide range of dates (which helps mitigate any interest rate risk whilst also providing more flexibility to carry out more debt rescheduling exercises in the future in response to any changing market conditions). All replacement loans were below the 4.00% target set for long term borrowing in accordance with the Borrowing Strategy and as such the replacement loans represent a lower cost of borrowing to the Council from 2009/2010 onwards.

Current estimates show that the savings in reduced interest payments for 2009/2010 will be £1.036 million and market conditions will continue to be monitored to secure further early debt redemption as and when appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet in line with the current Treasury Management reporting procedures.

- 7.6 The strategy for the remainder of 2009/2010 is to continue to monitor interest rates and to take advantage of any debt rescheduling opportunities that may arise.

Treasury Management Investment Strategy for 2009/2010

- 7.7 The Investment Strategy for 2009/2010 was approved by Cabinet on 11th February 2009. The following factors were taken into account:
- the procedures for determining the use of each asset class, (advantages and associated risk), particularly if the investment falls under the category of “non-specified investments”;
 - the maximum periods for which funds may be prudently committed in each asset class;

- the amount or percentage limit to be invested in each asset class;
- whether the investment instrument is to be used by the Council's in-house officers and/or by the Council's appointed external fund managers (if used) and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council's treasury advisers;
- the minimum amount to be held in short-term investments (i.e. one which the Council may require to be repaid or redeemed within 12 months of making the investment).

The primary aim of this policy is the security of Council funds, then having regard to liquidity or availability of cash to meet council liabilities and finally to secure a reasonable rate of return on its investments.

- 7.8 The Annual Investment Strategy continues to be fully complied with when placing Council funds.
- 7.9 As at 30th November 2009 the funds managed by the Council's in-house Treasury Management team amounted to £189.218 million and the return received on these investments is currently 1.96% compared with the benchmark rate (i.e. the 7 day rate) of 0.39%. Performance is very good and is out performing the benchmark rate whilst the treasury management function continues to be undertaken within the very prudent policy agreed by the Council.
- 7.10 The Annual Investment Strategy sets out the criteria used to identify organisations for investments. It also stated that the Government's AAA credit rating would be applied to UK nationalised banks (or banks where the government have taken a substantial stake). However, the maximum period funds can be placed with these institutions is 364 days, unless a lesser period of guarantee has been stated by the government.

Furthermore, the main 8 UK institutions benefiting from the Government's Credit Guarantee Scheme should have the AAA credit rating applied to them provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of AAA; and
- that market intelligence and professional advice is taken into account.

Investments were limited to UK institutions with the position to be kept under review as appropriate.

- 7.11 In view of the economic climate and the current situation with the financial markets, the Director of Financial Resources, in consultation with the Cabinet Portfolio Holder for Resources, was given delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate. This delegation was approved on the basis that

any necessary changes would be reported to Cabinet and the Audit and Governance Committee retrospectively, in accordance with normal Treasury Management reporting procedures.

On 19th October 2009 the Director of Financial Resources, after consultation with the Cabinet Portfolio Holder for Resources, agreed to increase the maximum investment limit for institutions with Fitch long term ratings of AAA and AA+ from £30 million to £40 million (which includes all those nationalised or part nationalised banks). The Co-operative Bank was also added to the Lending List following its merger with the Britannia Building Society as the mutual bank has not been as adversely affected by the credit crunch as other financial institutions having mainly cash and asset backed reserves.

7.12 The revised criteria are set out in Appendix B and the amended Lending List is set out in Appendix C for approval.

8. Prudential Indicators 2009/2010

8.1 The Prudential Indicators for the financial year 2009/2010 were approved by the Council on the 4th March, 2009. The indicators are included in the prudential code developed by the Chartered Institute of Public Finance and Accountancy which local authorities are required by statute to have regard to in order to ensure that capital investment is carried out in accordance with best practice. These indicators are regularly reviewed to ensure that:

- the Council remains within its Authorised Limit for External Debt and any warning signals are highlighted where there is a danger that capital investment plans are not affordable, prudent, and sustainable;
- treasury management decisions are taken in accordance with professional good practice and observe the requirements of the Treasury Management Code of Practice;
- the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.

8.2 Internal monitoring procedures have been established to track performance against the various prudential indicators agreed by the Council. These are managed on a day to day basis as part of the delegated responsibilities of the Director of Financial Resources. At this stage the Council is operating well within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003. There are no areas for concern or any issues which require any review of the indicators as originally approved. A full review of the indicators will be reported to Cabinet along with proposed indicators for 2010/2011 at the February 2010 meeting.

Background Papers

Portfolio Holder Reports

Sector CityWatch (Monthly) and weekly credit rating list

Sector / Capital Economics / UBS Economic forecasts

Local Government Act 2003

Treasury Management in the Public Services Code of Practice

The Prudential Code for Capital Finance

Audit Commission Risk and Return Report (March 2009)

CIPFA Treasury Management Code of Practice consultation on proposed changes

Financial Times

Various notifications regarding resources from Government Departments

Appendix A

Scheme Variations since the Second Capital Review 2009/2010

	£000	£000
Reprofiling of Expenditure from 2009/2010 to future years since the Second Review		
Leader / Deputy Leader		
Washington Managed Workspace	(500)	
Software City – site acquisition delays	(200)	
Other Schemes	(50)	(750)
Children and Learning City		
Building Schools for the Future Programmes	(470)	
School's Devolved Formula Capital – revised allocation of	(742)	
Primary Strategy for Change / School Place Planning Review	(1,177)	
Sure Start Early Years Childcare – reprioritisation of work to ensure compliance with spending requirements for grant funding	(399)	
Farrington School Special Status – re-profiling to reflect ongoing work to secure additional external funding to support the scheme	(340)	
School Window Replacement Schemes	(595)	
Other Schemes	(56)	(3,779)
Responsive Services and Customer Care		
Other Schemes		(291)
Safer City		
Old Sunderland Townscape Heritage Initiative – to reflect reduced	(940)	
Other Schemes	(27)	(967)
Attractive and Inclusive City		
A19/A1231 Junction Improvements	(833)	
Wheatsheaf and Stadium Way Bus Corridor Improvements – reflects anticipated impact of programme entry approval by DfT in Jan 2010 and conditional approval in Spring 2010.	(365)	
Central Car Park	(1,150)	
Sunderland Strategic Transport Corridor	1,032	
Other Schemes	(200)	(1,516)
Sustainable Communities		
Area Renewal	(4,428)	
Other Schemes	(100)	(4,528)
Prosperous City		
Other Schemes		(71)
Healthy City		
Housing Assistance – resources fully committed - assistance will	(250)	
Other Schemes	(330)	(580)
Technical Adjustments		
Cash Receipting – business case is included elsewhere on the agenda - now expected that expenditure will take place in	(200)	
SAP Archiving – to be incorporated in corporate document	(205)	(405)
		(12,887)

Additional Schemes since the Second Review 2009/2010		
Children and Learning City		
BSF Wave 2 Project Resource Plan		300
Safer City		
Sunderland Museum and Winter Gardens LED Lighting		73
Attractive and Inclusive City		
Smart Ticketing		928
Healthy City		
Herrington Park Café	50	
Adult Services – IT Schemes	173	223
Revisions to existing scheme costs since the Second Review		
Children and Learning City		
Primary Strategy for Change / School Place Planning Review		(285)
Attractive and Inclusive City		
A19/A690 Junction Improvements		148
Other Additional Schemes and Variations		(423)
		964
Technical Adjustments 2009/2010		
Washington Road Safety Measures – allocation of budget from	194	
World Heritage Site Visitor Facilities – ONE North East matched	299	493
		(11,430)

LENDING LIST CRITERIA

UK Institutions only

Fitch Long-term Credit Ratings

Long-term Credit Ratings generally cover periods of investment up to a maximum of 5 years.

		<u>£m</u>	<u>Maximum Investment Period</u>
AAA, or AA+	Maximum Investment Limit	40	2 Years
AA	Maximum Investment Limit	25	2 Years
AA-	Maximum Investment Limit	20	364 Days
A+ or A	Maximum Investment Limit	10	364 Days
A-	Maximum Investment Limit	5	6 months

Where nationalisation or part nationalisation has occurred, the AAA rating for the UK will be used.

Fitch / Moody's Short-term Ratings

Short-term Credit Ratings cover periods up to 1 year.

Investment periods can be determined by Fitch / Moody's short-term ratings.

Fitch / Moody's			
F1 or F1+ / P-1		Max.Period	364 Days
Fitch IBCA / Moody's			
F2 / P-2		Max.Period	6 Months
		<u>£m</u>	<u>Maximum Investment Period</u>
Local Authorities (limit for each local authority)		30	364 Days

APPENDIX C

Approved Lending List

The list reflects the changes made since the previous report made to Cabinet on 7th October 2009 and includes the delegated decision of 19th October 2009.

Institution	Country	Fitch IBCA Long Term	Fitch IBCA Short Term	Moody's Long Term	Moody's Short Term	Total Limit £m	Max. Deposit Period
Abbey National plc / Alliance & Leicester plc	UK	AA-	F1+	Aa3	P-1	20	364 Days
Barclays Bank plc	UK	AA-	F1+	Aa3	P-1	20	364 Days
HSBC Bank plc	UK	AA	F1+	Aa2	P-1	25	2 Years
Lloyds TSB Bank plc / Bank of Scotland (HBOS) #	UK	AA-	F1+	Aa3	P-1	20	364 Days
National Westminster Bank / Royal Bank of Scotland #	UK	AA-	F1+	Aa3	P-1	20	364 Days
Northern Rock plc *	UK	A-	F1+	A2	P-1	5	6 Months
Co-operative Bank plc	UK	A-	F2	A2	P-1	5	6 Months
* Nationalised - Government guarantee is in place on a rolling 3 month basis							
# Partly Nationalised							
Top 10 Building Societies							
Nationwide B.S.	UK	AA-	F1+	Aa3	P-1	20	364 Days
Yorkshire B.S.	UK	A-	F2	Baa1	P-2	5	6 Months
Coventry B.S.	UK	A	F1	A3	P-2	10	364 Days
Chelsea B.S.	UK	BBB+	F2	Baa3	P-3	5	N/A
Leeds B.S.	UK	A	F1	A2	P-1	10	364 Days
West Bromwich B.S.	UK	BBB-	F3	Baa3	P-3	5	N/A
Skipton B.S.	UK	A-	F2	Baa1	P-2	5	6 Months
Principality B.S.	UK	BBB+	F2	Baa2	P-2	5	N/A
Newcastle Building Society	UK	BBB-	F3	Baa2	P-2	5	N/A
Norwich and Peterborough B.S.	UK	BBB+	F2	Baa2	P-2	5	6 Months

N/A – Not Applicable as below the long term rate of A-

