

CABINET MEETING – 11 JANUARY, 2012

EXECUTIVE SUMMARY SHEET- PART I

Title of Report:

Capital Programme - Third Review 2011/2012, Provisional Resources 2012/2013 and Treasury Management Review 2011/2012

Author:

Executive Director of Commercial and Corporate Services

Purpose of Report:

This report details changes made to the Capital Programme 2011/2012 since the Second Capital Programme Review 2011/2012, shows provisional Capital Resource allocations for 2012/2013 and provides an update on progress in implementing the Treasury Management Borrowing and Investment Strategy for 2011/2012.

Description of Decision:

Cabinet is recommended to:

In relation to the Third Review of the Capital Programme for 2011/2012:

- approve, and where necessary recommend to Council, the inclusion of additional schemes for 2011/2012 detailed at Appendix A and associated resourcing of the Capital Programme since the Second Review of the Capital Programme was reported to October Cabinet;

In relation to the Capital Programme for 2012/2013:

- agree to the allocation of resources as set out in paragraph 6, subject to any adjustment when final resource 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 2011;

In relation to the Treasury Management Strategy for 2011/2012:

- to note the progress in implementing the Treasury Management Strategy for 2011/2012.

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 2011/2012 second capital review to enable effective budgetary control to be exercised.

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

Cabinet 11th January 2012

Capital Programme - Third Review 2011/2012, Provisional Resources 2012/2013 and Treasury Management Review 2011/2012

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of the Report

1.1 This report details:

- reprofiling of projects since the Second Capital Programme Review was reported;
- the inclusion of additional schemes and revisions to costs and resourcing for 2011/2012 since the Second Capital Programme Review was reported;
- the updated Capital Programme following the Third Review;
- provisional capital resource allocations for 2012/2013;
- Treasury Management performance

2. Description of Decision:

2.1 Cabinet is recommended to:

In relation to the Third Review of the Capital Programme for 2011/2012:

- approve, and where necessary recommend to Council, the inclusion of additional schemes for 2011/2012 detailed at Appendix A and associated resourcing of the Capital Programme since the Second Review of the Capital Programme was reported to October Cabinet;

In relation to the Capital Programme for 2012/2013:

- agree to the allocation of resources as set out in paragraph 6 subject to any adjustments when final resource 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 2012.

In relation to the Treasury Management Strategy for 2011/2012:

- to note the progress in implementing the Treasury Management Strategy for 2011/2012.

3. Third Capital Review 2011/2012

3.1 This report presents the Third Review of the 2011/12 Capital Programme and Appendix A details the variations which have arisen since the Second Review. In total, reprofiling and other adjustments have led to the 2011/2012 Capital Programme reducing by £17.787 million from £80.592 million to £62.805 million. This reduction can be summarised as follows:

- Reprofiling of expenditure between 2011/2012 and future years. (£9.568m)
- Additional fully funded schemes and cost variations notified since the Capital Programme was last reported. (£2.681m)
- Technical adjustments. (£5.538m)

4. Reprofiling of Expenditure between 2011/2012 and future years

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

4.1 Leader

Strategic Land Acquisition Provision

A sum of £4.000m has been allocated to fund strategic land acquisitions in accordance with Council policy to meet the aims and objectives of the Economic Masterplan. Negotiations are ongoing with a number of landowners and it is anticipated that £1.780m will require reprofiling to 2012/2013. All major land acquisitions will be reported to Cabinet.

4.2 Deputy Leader

Digital Challenge

There have been delays in allocating funding to schemes whilst clarification of the rules relating to use of digital challenge grant were sought from the funding body. Expenditure of £0.600m to provide access to ICT facilities for pupils in deprived areas will consequently be reprofiled into 2012/2013.

Corporate Computing Model

On 21st July 2010 Cabinet approved procurement of a Council Corporate Computing Model and IBM are to provide a city-wide Cloud Computing platform that will not only meet the Council's needs, but will stimulate economic growth for the benefit of the whole city by reducing technological investment barriers. The budget within the capital programme for the Corporate Computing model is £8.800m. It is anticipated that capital costs of service implementation will be £5.901m (£5.163m in 2011/2012 and £0.738m in 2012/2013) and will be complete by July 2012. Implementation of the new model is expected to reduce the Council's IT costs by £1.4m annually over the next five years.

4.3 Prosperous City

Software Centre

The landmark Software Centre development is due to open in Spring 2012. Construction works are on schedule, however it is expected that a greater proportion of fitting out works will take place in 2012/2013 than originally anticipated and this requires £0.260m expenditure and associated funding to be reprofiled into 2012/2013.

4.4 Sustainable Communities

Area Renewal

Property negotiations are progressing well and there is likely to be an acceleration of both spend and funding of £0.610m into 2011/2012 from 2012/2013 as a result.

4.5 Children's Services

Schools Asset Management Priorities

Expenditure and funding of £1.942m on the schools asset management programmes is now forecast to be reprofiled into 2012/2013. This is required for various reasons including; delays to roofing works following the need to procure bat licences; a retendering exercise being required; work being rescheduled to Easter 2012 to minimise disruption within schools; and a reduction in the amounts held within the 2011/2012 capital programme that may be required to fund unforeseen emergency works.

4.6 Safer City and Culture

Old Sunderland Townscape Heritage Initiative

The Council has identified an opportunity to restore the grade II listed Hendon Orphanage building to create a scheme to provide specialist dementia accommodation including development of the site to the rear. It is the intention to grant a long leasehold interest to a developer who can develop and operate the specialist housing in line with the Council's requirements. Funding through the Heritage Lottery Fund was initially due to end in 2011, however a further year's extension has been granted and £1.200m of expenditure and funding will therefore be reprofiled into 2012/2013 as detailed planning requirements and costings are finalised.

4.7 Health and Well Being

Community Sports Facilities

A total of £0.700m has been earmarked from the Strategic Investment Plan to match investment from the Football Foundation and other external bodies to develop facilities identified in Phase 1 of the Football Investment Strategy. Two projects at Biddick and Farringdon schools have now been completed and new facilities at Northern Area Fields Washington and at the Billy Hardy Complex are currently being progressed. A change to funding criteria however has necessitated additional funding to be sought from external

organisations which means that the above projects will now be completed in 2012/2013. In addition bids for a further two projects will be submitted next year which are expected to be completed in 2013/2014.

4.8 Attractive and Inclusive City

Local Transport Plan – Fatfield Bridge Structural Maintenance

A structural assessment has been completed and the tendering process is currently underway. Work is planned to commence March 2012 to avoid winter conditions and estimated expenditure of £0.600 m has been reprofiled into 2012/2013.

5. Additional Schemes and Cost Variations

A number of new schemes have been added to the programme which are fully funded. Full details are set out at Appendix A with the additions not previously reported to Cabinet set out below .

5.1 Cabinet Secretary

Port Dredging

The cost of the dredging works funded from the Port Reserve totalled £0.556m which was £0.284m below the budgeted cost of £0.840m due to a lower than anticipated quantity of material requiring dredging.

Glover Depot Dilapidations

Works were required to 23 Bentall Business Park, formerly occupied by City Services (Parks Division) since 1991, under the terms of the lease, to leave it in the same original condition. Funding of the dilapidation works has been provided through use of a specific earmarked reserve.

Pier Capital Maintenance

Structural inspections of Roker Pier following severe weather identified damage to both the concrete deck and handrailing which presented health and safety hazards to the public and required closure of the pier until the necessary works, costing £0.080m were completed. In addition, it was been necessary to infill an unstable void within the pier wall at the north east corner of Old North Pier, to remove a potential health and safety hazard, at a cost of £0.018m. Funding has been provided from underspendings within the capital programme.

5.2 Attractive and Inclusive City

Play and Urban Games Strategy - South Hylton Environmental Project

In December 2010 an update of the existing Play and Urban Games Strategy (PUGS) was adopted by Cabinet which provided a new strategy direction and framework from which to guide investment and resources, with a view to further increasing satisfaction, participation and access levels in play. Within the updated PUGS, priorities have been identified with ward members through appropriate consultation. Total cost of the schemes are anticipated to

be £1.250m, Section 106 resources are available for some projects and work will be undertaken to identify other sources of funding. Funding of £0.200m has now been secured to enable the first project at South Hylton to commence in 2011/2012 (£0.075m in 2011/2012 and £0.125m in 2012/2013) Further projects will be developed and introduced into the programme when funding is confirmed.

6 Emerging Capital Resources Position 2012/13

Government funding provided towards capital schemes has been substantially reduced following the Spending Review, announced on 20th October 2010. Notification of capital funding allocations has been received from a number of Government departments and, where known, the allocation to Sunderland is detailed below.

Funding allocations are in the form of capital grants. The Council may supplement external funding allocations from its own resources or from undertaking prudential borrowing. Prudential borrowing undertaken will not be supported by any funding from Government. Local borrowing levels must be set within the Authority's Prudential Limits, which will be reported to Council in March 2012.

Details of capital allocations by service block are shown below:

6.1 Children's Services

Schools Capital Funding Allocations

In December 2010 the Coalition Government announced one year capital grant allocations for 2011/2012. The intention was that 2011/2012 would be treated as an interim year before the recommendations from the Sebastian James review of Department for Education (DfE) capital programmes could be implemented. However, DfE have again announced a one year funding allocation for 2012/2013 whilst they reflect on 'the rapidly changing situation in local areas on both demographic growth and numbers of schools converting to Academy status'. Grant funding awarded to Sunderland is detailed below.

	2011/2012 Allocation	2012/2013 Allocation
	£'000	£'000
Education – LA Block		
Capital Maintenance	3,979	3,177
Basic Need	3,308	1,635
	7,287	4,812
Schools Block		
Local Authority Devolved Formula Capital (Standards Fund)	770	726
Local Authority Voluntary Aided Devolved Formula Capital (Standards Fund)	222	222
Local Authority Co-Ordinated Voluntary Aided Programme	1,059	999
	2,051	1,947
All Capital Approvals	9,338	6,759

- Overall Capital Grants have reduced by 27.6% from 2011/2012 allocations (this follows a 53.0% reduction in 2011/2012 from original 2010/2011 allocations). The Local Authority Element has reduced by 34.0% (following a 39.6% reduction in 2011/2012).
- At a national level overall capital funding remains the same as last year, however, methodology for allocating funds has been changed.
 - A sum of £276m regarding maintenance has been allocated to existing Academies and Academies with approved expressions of interest, this reduces the amount available to local authorities. Local authorities are also expected to honour any commitments of capital funding that they have made in respect of building projects at schools who consider converting to Academy status.
 - Basic Need allocation in 2011/2012 was based entirely on pupil growth but for 2012/2013, the calculation for basic need funding will be based 50% on pupil and 50% on shortfall in capacity. This capacity criteria is the same used to allocate £500 million of additional capital funding for 2011/2012 announced on 3rd November 2011 and for which Sunderland received a nil allocation
- Grants announced exclude an additional £600m allocated for Basic Need in the Chancellor's Autumn Statement. Ministers are still considering how best to allocate this funding
- An announcement of those schools successful in bidding for Priority School Building Programme funding is expected in the new year. This programme will focus on the school buildings in greatest need of repair and Partnerships for Schools is currently reviewing applications to ensure there is a fair and rigorous selection of schools for admission to the programme. The Council has applied for funding for two secondary schools and three primary schools.

- A final Government response to the recommendations contained in the James Review will be made in January 2012.

6.2 Highways

Maintenance and Integrated Transport Schemes

As part of the Spending Review, the Department for Transport (DfT) announced a radical simplification of local transport funding, moving from 26 separate grant streams to just four.

- I. a Local Sustainable Transport Fund (capital and revenue);
- II. Major Schemes
- III. block funding for Highways Maintenance; and
- IV. block funding for small transport improvement schemes – Integrated Transport.

Local Sustainable Transport Fund

This fund has been established to support packages of transport interventions that support economic growth and reduce carbon emissions in their communities as well as delivering cleaner environments and improved air quality, enhanced safety and reduced congestion. The Tyne and Wear ITA has submitted a bid for the period 2012/2013 to 2014/2015 on behalf of the Tyne and Wear Local authorities and other partners including, Nexus, transport operators and Sustrans. The value of the bid relating to Sunderland is £3.4m of which £1.750m (£1.125 capital and £0.625 revenue) will be delivered by the City Council in respect of cycling routes and sustainable travel initiatives on the A1231 corridor; sustainable travel initiatives at Doxford International and parking and access improvements in the vicinity of the royal hospital. The outcome of the bid will be known towards the end of this financial year. A contribution of £0.380m will be required from the Councils LTP over a 3 year period.

Major Schemes – Sunderland Strategic Corridor

On 14th December 2011 the Secretary of State announced that the Council had been successful in its application for funding towards the Sunderland Strategic Corridor - New Wear Crossing. Programme entry stage for the scheme has now been reconfirmed and the council can complete the remaining legal and procurement processes (but not enter into contractual or other legal commitments for the construction of the scheme) following which a request for Full Approval can be made. A provisional award of funding of £82.6m from DfT has been made against the total anticipated scheme costs of £117.6m in line with the bid submitted in September. The exact funding arrangements are subject to further discussion and agreement with DfT which may necessitate the reprofiling of expenditure within the overall total. A report on the scheme will be presented to a future Cabinet meeting.

Highways Maintenance and Integrated Transport

Both the Highways Capital Maintenance and Integrated Transport funding blocks are calculated through a needs-based formula and in Metropolitan Areas are allocated to the Integrated Transport Authority in that area who vire capital funding between local authorities. Agreed allocations to Sunderland are detailed below.

	2011-12 £000s	2012-13 £000s	2013-14 £000s provisional	2014-15 £000s provisional
Highways Maintenance	2,804	2,919	2,877	2,768
Integrated Transport	2,008	2,141	2,141	3,011
Total	4,812	5,060	5,018	5,779

Funding allocations for 2013/14 and 2014/15 are indicative and are subject to change, for instance as a result of changes to the formulae or future data changes.

6.3 Housing

The Council no longer receives housing funding through the Single Housing Investment Plan provided by the Regional Housing Board. The only anticipated housing capital grant for 2012/2013 will be in respect of Disabled Facilities Grant (DFG) from the Department for Communities and Local Government (CLG). The amount of grant award to the Council is not anticipated to be announced until mid-February 2012 however CLG have confirmed that they will protect the overall level of DFG available nationally and it is anticipated the Council will receive a similar level to the £1.417m received in 2011/2012. The DFG grant is not ring fenced but is expected to be used to support individuals being able to remain in their own properties for as long as possible in a safe and secure environment.

6.4 Adult Services

In 2011/2012 the Coalition Government consolidated a number of capital funding streams for Adult Services and the Council now receive a single Department of Health capital grant on the basis of social care Relative Needs Formula, rather than the bidding process for various grants that has been used in the past. The allocation to Sunderland was £0.829 million in 2011/2012 and will be £0.848 million in 2012/2013. The grant is not ring fenced but is expected to be used to support three key areas which comprise of personalisation, reform and efficiency. These resources will be considered in the light of overall revenue and capital budget pressures.

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 the context of revenue budget pressures

7. Review of the Prudential Indicators and Treasury Management Strategy for 2011/2012

7.1 The Prudential Indicators for 2011/2012 were approved by the Council on the 2nd March 2011 and are regularly reviewed to ensure that:

- the Council remains within its Authorised Limit for External Debt;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and existing Council Treasury Management Policy and Strategy Statement;
- the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.

7.2 Internal monitoring procedures track performance daily against the various prudential

indicators agreed by the Council. To date, the Council has operated within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and at this stage there are no areas for concern or any issues which require any review of the indicators as originally approved.

Borrowing Strategy for 2011/2012

7.3 The Borrowing Strategy is based upon interest rate forecasts from a number of City institutions. The table below shows changes in the anticipated movement in interest rates since those previously reported to Cabinet at the Second Capital Review.

	Anticipated Bank Base Rate		Anticipated PWLB 5 year Maturity Rate		Anticipated PWLB 10 year Maturity Rate		Anticipated PWLB 50 year Maturity Rate	
	Aug 2011	Oct 2011	Aug 2011	Oct 2011	Aug 2011	Oct 2011	Aug 2011	Oct 2011
March 2012	0.50%	0.50%	2.90%	2.30%	4.10%	3.30%	5.10%	4.30%
March 2013	1.00%	0.50%	3.40%	2.50%	4.60%	3.50%	5.20%	4.50%
March 2014	2.25%	1.25%	4.10%	2.90%	5.00%	4.00%	5.50%	4.90%

Anticipated interest and borrowing rates have been revised downwards following very high levels of volatility in world economies, in particular in the Eurozone. Economists are now forecasting that an increase in the Bank of England Base Rate will not occur until the second half of 2013 at the earliest (previously this was forecast was for December 2012). The GDP growth forecast has been downgraded to 0.9% (from 1.7% set in the March 2011 budget) in 2011 and 0.7% (from 2.5%) for 2012 followed by a slower recovery than previously predicted. In order to help stimulate the domestic economy the Bank of England has begun a £75bn programme of Quantitative Easing (QE). Markets expect the impact of this to be limited and are already pricing in another round of QE to come through in the early stages of 2012. This may have the effect of reducing interest rate forecasts further over the short to medium term.

The interest rate offered by the PWLB to local authorities with a Housing Revenue Account, will be temporarily reduced from January next year. The reduced rate will only apply to borrowing to allow local authorities to leave the existing subsidy system for council housing finance to allow them to be 'self financing'. As the Council does not have any housing stock it is unaffected by the changes in PWLB interest rates.

- 7.4 No new borrowing has been undertaken in the current financial year. The Council's strategy for 2011/2012 is to continue to adopt a pragmatic and flexible approach and to respond to any changing circumstances to seek to secure best value for the Council.

Investment Strategy for 2011/2012

- 7.5 The primary aim of the Investment Strategy is the security of Council funds, then having regard to liquidity i.e. the availability of cash to meet council liabilities, and finally to secure a reasonable rate of return on its investments.
- 7.6 As at 30th November 2011, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.62% compared with the benchmark rate (i.e. the 7 day rate) of 0.40%. Performance is very positive and is significantly above the benchmark rate, whilst adhering to the prudent policy agreed by the Council. In cash terms interest received is projected to be £1.7m above budget in 2011/2012.
- 7.7 Due to high levels of volatility that currently exist in financial markets the Council is following advice that investments with non-part government owned institutions should be kept to shorter periods of a maximum of three months. The investment policy is regularly monitored and reviewed to ensure it has flexibility and to take full advantage of any changes in market conditions to the benefit of the Council.

Appendix A

Scheme Variations since the Second Capital Review 2011/2012

	£000	£000
Reprofiling of Expenditure from 2011/2012 to future years since the Second Review		
Leader		
Strategic Land Acquisition Provision		(1,780)
Deputy Leader		
Digital Challenge	(636)	
Corporate Computing Model	(737)	
Other Schemes	(352)	(1,725)
Children and Learning City		
Schools Asset Management Priorities		(1,942)
Prosperous City		
Software City Phase 1		(260)
Safer City and Culture		
Old Sunderland Townscape Heritage Initiative	(1,200)	
Other Schemes	(170)	(1,370)
Sustainable Communities		
Area Renewal	610	
Other Schemes	(100)	510
Health and Well Being		
Community Sports Facilities	(1,405)	
Other Schemes	(90)	(1,495)
Attractive and Inclusive City		
Major Transport Corridors – negotiation for ongoing CPO's to be finalised in 2012/2013	(707)	
Bridge Works	(600)	
Other Schemes	(199)	(1,506)
		(9,568)
Technical Adjustments		
Parks Equipment - Funded from Loan following Option Appraisal	562	
Capital Contingency schemes – reprofiling to 2012/2013 to allow full consideration of business cases	(6,100)	(5,538)
Additional Schemes and Revisions to Scheme Costs 2011/2012 – fully funded		
Deputy Leader		
Corporate Computing Model		(2,899)
Cabinet Secretary		
Port Dredging	(284)	
Glover Depot Dilapidations	186	
Pier Capital Maintenance	98	0
Sustainable Communities		
Empty Property Action Plan – approved by Cabinet 2/11/11 and funded from New Homes Bonus Grant (£0.077m in 2011/2012 and £0.500m in 2012/2013)		77
Attractive and Inclusive City		
South Hylton Environmental Project (£0.075m in 2011/2012 and £0.125m in 2012/2013)		75
Responsive Services		
Customer Service Network Platform – procurement approved by Cabinet 24/6/10 and funded from Business Transformation Reserve		230
Other Fully Funded Additional Schemes and Variations		(164)
		(2,681)
TOTAL		(17,787)

