

CABINET MEETING – 15 JANUARY 2014

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Capital Programme - Third Capital Review 2013/2014, Provisional Resources 2014/2015 and Treasury Management Review 2013/2014

Author(s):

Head of Financial Resources

Purpose of Report:

This report details:

- reprofiling of projects since the Second Capital Review for 2013/2014 was approved in October 2013;
- the inclusion of additional schemes and revisions to costs and resourcing for 2013/2014 since the Second Capital Review was reported;
- the allocation of capital resources for 2014/2015, as set out in Section 5, subject to any adjustment when final resource announcements are made;
- the progress in implementing the Treasury Management Strategy for 2013/2014.

Description of Decision:

- (i) In relation to the Capital Programme for 2013/2014, Cabinet is asked to approve, and where necessary recommend to Council, the inclusion of additional schemes or variations to existing schemes for 2013/2014 detailed at Appendix A, as a variation to the Capital Programme;
- (ii) In relation to the Capital Programme for 2014/2015, Cabinet is asked to note
 - that the allocation of resources as set out in Section 5 will be subject to final resource announcements;
 - that Cabinet Members will consider proposals for new starts based on resource allocations to be confirmed in due course in order to incorporate proposed new starts in the Capital Programme to be presented to Cabinet in February 2014.
- (iii) In relation to the Treasury Management Strategy and Prudential Indicators, Cabinet is asked to note the positive progress made in implementing the strategy for 2013/2014.

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 proposed variations in expenditure and funding which have arisen since the Second Capital Review 2013/2014 was approved to enable effective budgetary control to be exercised.

To note the resources available to enable capital programme priorities for 2014/2015 to be considered by Cabinet in February.

To note the progress in implementing the Treasury Management Strategy for 2013/2014, this is in line with the approved Treasury Management Policies.

Alternative options to be considered and recommended to be rejected:

No alternative options are proposed.

Impacts analysed:**Equality**☒**Privacy**☒**Sustainability**☒**Crime and Disorder**☒**Is this a “Key Decision” as defined in the Constitution?**

Yes - new capital projects detailed at Appendix A estimated to cost above £250,000

Is it included in the 28 Day Notice of Decisions?

Yes provisionally - in light of content of this report it is necessary

Scrutiny Committee

Cabinet – 15th January 2014

Third Capital Review 2013/2014, Provisional Resources 2014/2015 and Treasury Management Review 2013/2014

Head of Financial Resources

1. Purpose of Report

1.1 This report details:

- reprofiling of projects since the Second Capital Review for 2013/2014 was approved in October 2013;
- the inclusion of additional schemes and revisions to costs and resourcing for 2013/2014 since the Second Capital Review was reported;
- the allocation of capital resources for 2014/2015, as set out in Section 5, subject to any adjustment when final resource announcements are made;
- the progress in implementing the Treasury Management Strategy for 2013/2014.

2. Description of Decision:

2.1 Cabinet is requested:

- (i) In relation to the Capital Programme for 2013/2014, Cabinet is asked to approve, and where necessary recommend to Council, the inclusion of additional schemes or variations to existing schemes for 2013/2014 detailed at Appendix A, as a variation to the Capital Programme;
- (iii) In relation to the Capital Programme for 2014/2015, Cabinet is asked to note;
 - that the allocation of resources as set out in Section 5 will be subject to final resource announcements;
 - that Cabinet Members will consider proposals for new starts based on resource allocations to be confirmed in due course in order to incorporate proposed new starts in the Capital Programme to be presented to Cabinet in February 2014.
- (iii) In relation to the Treasury Management Strategy and Prudential Indicators, Cabinet is asked to note the positive progress made in implementing the strategy for 2013/2014.

3. Introduction

- ##### **3.1**
- The Capital Programme changes during the year as notifications of additional schemes and resourcing are received, and phasing of schemes is reviewed. Variations to anticipated expenditure and financing of the 2013/2014 capital programme since reported to Cabinet on 9th October 2013 are shown in section 4 of this report. Those increases that exceed £250,000 will require Council approval in due course.

- 3.2 Performance in implementing the Treasury Management Strategy and adhering to the agreed Prudential Indicators is detailed in section 6 along with confirmation that the Council is operating within its agreed borrowing limits.

4. Third Capital Review 2013/2014

- 4.1 Since the Second Capital Programme was reported to Council in October 2013, there have been some changes required to the Capital Programme both in terms of expenditure and resourcing. In total, reprofiling and other adjustments have led to the 2013/2014 Capital Programme reducing by £7.424m from £79.665m to £72.241m. This can be analysed as follows:

- Reprofiled expenditure of £5.444m between 2013/2014 and future years. The primary reasons for this reprofiling relate to external influences outside of the Council's control;
- Additional fully funded schemes and cost variations notified since the Capital Programme was last reported increasing the capital programme by £0.520m.
- Technical Adjustments of £2.500m.

Appendix A gives a summary of the changes to expenditure and resources for 2013/2014 with the principal variations set out below:

4.2 Reprofiling of Expenditure between 2013/2014 and future years

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

4.2.1 Deputy Leader

Modernisation Improvements

The Capital Programme includes provision of £1.000m to enable ICT investment to support business transformation and the delivery of further efficiencies in key areas. The £1.000m will be reprofiled into 2014/2015 to facilitate these requirements in that year.

4.2.2 Cabinet Secretary

Port Infrastructure

The capital programme includes investment of £5.680m for Port Infrastructure works to enable access to wider commercial opportunities and allow for expansion. However £2.500m in respect of the scheme has been reprofiled into 2014/2015 to maximise potential for external funding.

4.2.3 Health, Housing and Adult Services

Area Renewal – Hetton Downs

The timing of expenditure on area renewal is difficult to forecast as it is dependent on agreement being reached with property owners in the area. Expenditure of £0.747m has been reprofiled into 2014/2015. A review of spend plans for Hetton Downs Housing Renewal scheme has been undertaken following agreement for a key piece of land to be acquired by a housing developer, rather than the Council, which will enable better outcomes to be achieved.

Cluster of Empty Homes

This project, jointly funded by the Council and the Homes and Communities Agency, aims to refurbish empty properties and return them to use in four areas where there is a significant number of empty properties. The Department for Communities and Local Government have confirmed an extension to March 2015 for required outcomes from this scheme to be achieved. Lower than anticipated interest from property owners requires £0.526m to be reprofiled into 2014/2015. A change to the criteria for support to property owners earlier this year is expected to increase up take and enable the required outcomes to be achieved in accordance with the revised timescales.

Empty Property Action Plan

This project provides funding to refurbish empty properties across the city and bring them back into use. Due to the cross-over with the above Cluster scheme and to ensure access to the Cluster grant is maximised, appropriate properties that fall within a cluster area have been transferred to that scheme. As a consequence £0.432m of the Empty Property Action Plan is to be reprofiled into 2014/2015.

4.2.4 Children's Services

School's Devolved Capital

A review of school's devolved capital plans indicates that spend will be less than previous projections in 2013/2014. Therefore £0.206m will be reprofiled into 2014/2015.

4.3 Additional Schemes and Cost Variations 2013/2014

4.3.1 City Services

Clean Bus Technology Fund

Following a successful joint bid with Durham County Council, £0.276m Clean Bus Technology Fund grant has been awarded by the DfT. This grant will be pass-ported to Go North East to retrofit 19 buses to cut pollution and improve air quality across Sunderland and Durham.

Trans-Sunderland Cycle Route

£0.265m funding has been secured from the Department for Transport for a trans-Sunderland cycle route and includes works at Washington Road and Ferryboat Lane. Match funding is provided by existing Local Transport grant.

5. Capital Resources 2014/2015

Funding allocations are in the form of capital grants. The Council may supplement external funding allocations from its own resources or undertake prudential borrowing. Prudential borrowing undertaken will not be supported by 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 2014.

At the time this report was produced the Coalition Government had released details of certain capital grants which are shown in the table below. The Council is awaiting details of Other Education grants that will be awarded to support the 2014/2015 capital programme.

| | 2013-14 £000s | 2014-15 £000s |
|---|--------------------------|--------------------------|
| Highways Maintenance | 3,397 | 3,052 |
| Integrated Transport | 2,141 | 3,011 |
| Local Pinch Point | 0 | 1,169 |
| Total Transport | 5,538 | 7,232 |
| Department of Health Community Capacity | 843 | 860 |
| Communities and Local Government Disabled Facilities | 1,422 | 1,467 |
| Basic Needs | 805 | 805 |
| Universal Infant Free School Meals | 0 | 443 |
| Total Department for Education | 805 | 1,248 |

It is proposed to continue the existing practice of allocating capital resources regarding Education, Transport, Communities and Local Government, and Health Government Grants as well as resources for other services up to the limit of the grant allocation and resource availability in the context of revenue budget pressures. Actual capital grants awarded to Sunderland will be reported to Cabinet once they become known.

6. Review of the Prudential Indicators and Treasury Management Strategy for 2013/2014

6.1 The Prudential Indicators for 2013/2014 were approved by the Council on the 6th March 2013 and are regularly reviewed to ensure that:

- the Council remains within its Authorised Limit for External Debt which is a regulatory requirement;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and the agreed Council Treasury Management Policy and Strategy for 2013/2014;
- the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.

6.2 Internal monitoring procedures track performance daily against the various prudential indicators agreed by the Council. At this stage, the Council is operating within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and there are no areas for concern or any issues which require any review of the indicators as originally approved.

Borrowing Strategy for 2013/2014

6.3 The Borrowing Strategy is based upon the Council's anticipated borrowing requirement and prospects for interest rates. During 2013/2014 to date there has been a sharp rise in UK gilt yields which has led to an increase in PWLB rates as investors have switched from bonds into equities, with share markets now standing at or near new highs. Potential upside risks for further increases remain e.g. if there are large financial improvements within the Eurozone or UK inflation was to be significantly higher than in the wider EU or the US.

However, bond yields remain extremely unpredictable and there are still exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone and US. This uncertainty is expected to continue into the medium term.

No new borrowing has been undertaken in the current financial year. The Council's strategy for 2013/2014 is to continue to adopt a pragmatic and flexible approach and to respond to any changing circumstances to seek to secure benefit for the Council. Consideration will be given to various options, including utilising some investment balances to fund the Council's borrowing requirement, in 2013/2014 as appropriate.

Investment Strategy for 2013/2014

6.4 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.

- 6.5 As at 30th November 2013, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.04% compared with the benchmark rate (i.e. the 7 day rate) of 0.36%. Performance is therefore very positive and is significantly above the benchmark rate, whilst adhering to the prudent policy agreed by the Council.
- 6.6 The rate of return on investments however has fallen markedly in 2013 as UK-based financial institutions access funding from alternative sources such as the Government's Funding for Lending Scheme to allow them to increase their capital/cash reserves in line with recent regulatory requirements. The result is that investment rates have reduced considerably since April 2013 and continue to follow a downward trend. Even special tranche investment rates (which offer better than market average returns) have reflected this downward trend. Forward guidance announced in the Quarterly Inflation report (August 2013) by the Bank of England, and reaffirmed in November 2013, shows that they do not expect to increase the Bank Base Rate until 2016. The implication from this is that returns on investments will be significantly lower than those achieved in recent years until interest rates begin to increase.
- 6.7 The Council is following advice from its treasury adviser, Capita Asset Services – Treasury Solutions, 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 to take full advantage of any changes in market conditions to the benefit of the Council.

7. Reasons for Decision

- 7.1 To respond to variations in proposed expenditure and income which have arisen since the 2013/2014 Capital Programme was approved to enable effective budgetary control to be exercised and to update Cabinet on the progress in implementing the Treasury Management Borrowing and Investment Strategy for 2013/2014.

8. Alternative Options

- 8.1 No alternative options are proposed.

9. Impact Analysis

Impact assessments will be undertaken by Directorates as each Project is developed.

10. List of Appendices

Appendix A - Other variations to the 2013/2014 capital programme to those previously reported.

11. Background Papers

Sunderland City Council Capital Programme 2012/13 to 2016/17
Cabinet Report - First Capital Review 2013/2014
Cabinet Report - Second Capital Review 2013/2014

Scheme Variations since the Second Capital Review 2013/2014

| | £000 | £000 |
|---|-------|----------------|
| Reprofiling of Expenditure from 2013/2014 to future years since the Second Review | | |
| | | |
| Deputy Leader | | |
| Modernisation Improvements | | (1,000) |
| Cabinet Secretary | | |
| Port Infrastructure | | (2,500) |
| Health, Housing and Adult Services | | |
| Area Renewal – Hetton Downs | (747) | |
| Cluster of Empty Homes | (432) | |
| Empty Property Action Plan | (526) | (1,705) |
| Children's Services | | |
| School's Devolved Capital | | (206) |
| Other Schemes Reprofiling | | (33) |
| | | (5,444) |
| Additional Schemes and Variation to Existing Schemes in the Capital Programme - Fully Funded | | |
| | | |
| City Services | | |
| Clean Bus Technology Fund | 276 | |
| Trans-Sunderland Cycle Route | 265 | 541 |
| Other Fully Funded Variations | | (21) |
| | | 520 |
| | | |
| Technical Adjustments | | |
| Capital Contingencies – Reprofiling into 2014/2015 | | (2,500) |
| | | |
| TOTAL VARIATIONS 2013/2014 | | (7,424) |

