

## CABINET MEETING – 16<sup>th</sup> January, 2013

### EXECUTIVE SUMMARY SHEET- PART I

**Title of Report:**

Capital Programme - Third Review 2012/2013, Provisional Resources 2013/2014 and Treasury Management Review 2012/2013

**Author(s):**

Executive Director of Commercial and Corporate Services

**Purpose of Report:**

This report details:

- reprofiling of projects since the Second Capital Review for 2012/2013 was approved in October 2012;
- the inclusion of additional schemes and revisions to costs and resourcing for 2012/2013 since the Second Capital Review was reported;
- the allocation of capital resources for 2013/2014, as set out in Section 5, subject to any adjustments required when final resource announcements are made;
- the progress in implementing the Treasury Management Strategy for 2012/2013.

**Description of Decision:**

In relation to the Capital Programme for 2012/2013, Cabinet is asked to approve, and where necessary recommend to Council, the inclusion of additional schemes or variations to existing schemes for 2012/2013 detailed at Appendix A, as a variation to the Capital Programme.

In relation to the Capital Programme for 2013/2014, Cabinet is asked to note that the allocation of resources as set out in Section 5 will be subject to final resource announcements; and 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 resource allocations to be confirmed in due course in order to incorporate proposed new starts in the 2013/14 Capital Programme to be presented to Cabinet in February 2013.

In relation to the Treasury Management Strategy and Prudential Indicators, Cabinet is asked to note the continued very positive progress made in implementing the strategy for 2012/2013.

**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 2012/2013 was approved to enable effective budgetary control to be exercised.

To note the progress in implementing the Treasury Management Strategy for 2012/2013 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 project 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 16th January 2013**

### **Capital Programme - Third Review 2012/2013, Provisional Resources 2013/2014 and Treasury Management Review 2012/2013**

#### **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 2012/2013 since the Second Capital Programme Review was reported;
- the allocation of capital resources for 2013/2014, 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 2012/2013.

#### **2. Description of Decision:**

##### 2.1 Cabinet is recommended to:

- (i) In relation to the Capital Programme for 2012/2013, Cabinet is asked to approve, and where necessary recommend to Council, the inclusion of additional schemes or variations to existing schemes for 2012/2013 detailed at Appendix A, as a variation to the Capital Programme;
- (ii) In relation to the Capital Programme for 2013/2014, Cabinet is asked to note that the allocation of resources as set out in Section 5 will be subject to final resource announcements; and 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 resource allocations to be confirmed in due course in order to incorporate proposed new starts in the 2013/14 Capital Programme to be presented to Cabinet in February 2013;
- (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 2012/2013.

#### **3. Introduction**

- 3.1 During the year additional approvals to incur expenditure are received from Government and other agencies with associated funding accompanying those approvals. Accordingly, 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 2012/2013 capital programme since the Second Review was reported to Cabinet on 10<sup>th</sup> October 2012 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 2012/2013**

4.1 Since the Second Capital Programme was reported to Council in October 2012, 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 2012/2013 Capital Programme reducing by £17.966m from £82.743m to £64.777m. This can be analysed as follows:

- Reprofiling expenditure of £9.378m between 2012/2013 and 2013/2014. 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 reducing the capital programme by £0.655m.
- Technical Adjustments of £7.933m.

Appendix A gives a summary of the changes to expenditure and resources for 2012/2013 with the principal variations set out below:

#### **4.2 Reprofiling of Expenditure between 2012/2013 and future years**

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

##### **4.2.1 Leader and Deputy Leader**

###### **Vaux Redevelopment - St Marys Boulevard & Magistrates Square**

On 20<sup>th</sup> June 2012 Cabinet approved the development of St Marys Boulevard & Magistrates Square with an estimated cost of £13.400m. Following detail costings of designs for the scheme, the total cost has reduced by £1.536m to £11.864m. The reduced overall costs include savings through advance payment for utility works, with these works commencing earlier than forecast, in January 2013, and necessitating acceleration of £1.014m from 2013/2014 into 2012/2013. Following confirmation of funding from ERDF of £2.127m, the overall Council contribution to this scheme therefore is now £9.737m, this includes temporary funding of £2.500m via the Growing Places Fund which will require repayment from Council resources.

###### **Enterprise Zone Infrastructure**

Detailed proposals are currently being developed to ensure that the Council meets business needs in respect of the Enterprise Zone development and maximises available external funding. It is therefore necessary to reprofile £2.000m expenditure relating to infrastructure works near to the A19/A1231 interchange into 2013/2014.

###### **Modernisation Improvements**

A provision of £1.000m was established to enable investment to support business transformation and the delivery of further efficiencies in key areas including employee self service and document management. This provision is being synchronised with emerging 2013/14 budget proposals and will be reprofiled into 2013/2014.

### **Investment Corridors**

Investment in public realm improvements to strategic corridors within the city have been reprofiled to compliment other regeneration works planned to take place within the city centre and to optimise opportunities for further private sector investment within those areas. It is estimated that the majority of works will now take place in future years, requiring £0.990m reprofiling into 2013/2014.

### **Former Vaux Site Advance Works**

Remediation works to the former Vaux site are substantially complete, however discussions in relation to overall redevelopment of the site have led to £0.561m of works being reprofiled into 2013/2014.

### **Digital Challenge**

Discussions with schools over the most appropriate use of Digital Challenge grant to provide IT facilities to pupils in deprived areas are ongoing and it is anticipated that £0.330m of works will require reprofiling into 2013/2014.

## **4.2.2 Cabinet Secretary**

### **Old Sunderland Townscape Heritage Initiative**

The old orphanage at the East End in Hendon is to be converted into accommodation for older people with dementia. However, due to delays with the developer obtaining all of the necessary statutory ecological consents for works, £0.996m will require reprofiling into 2013/2014.

### **Seafront – Phase 2**

The scheme to undertake Phase 2 of the improvements to Roker and Seaburn promenades contained in the Seafront Regeneration Strategy has been reprofiled to align with a bid to Big Lottery for Coastal Communities funding in order to enhance the scheme. A sum of £0.370m will therefore be reprofiled into 2013/2014.

### **Roker Pier and Lighthouse**

Following outcomes from an initial survey that identified damage to the pier wall a further structural survey to the pier is to be undertaken. The second survey is expected to be completed in March 2013 and £0.364m spend will be reprofiled into 2013/2014.

## **4.2.3 City Services**

### **Integrated Transport Schemes**

Various integrated transport schemes within the city totalling £0.558m require to be reprofiled into 2013/2014 following extensive public consultations and also for prioritisation given to meeting requirements for major projects such as St Mary's Boulevard & Magistrates Square.

## **4.2.4 Public Health, Wellness and Cultural**

### **Football Investment Strategy**

There are two main football investments schemes that were planned to commence in the current financial year. Negotiations on the purchase of land for the Northern Area Pavilion have delayed the start of this project and will require reprofiling of £0.504m into

2013/2014. A successful bid to Sport England for part-funding of the Billy Hardy Pavilion will mean that this scheme will commence but not until 2013/2014, requiring reprofiling of £0.435m into that year.

### **Washington Leisure Centre**

On 10<sup>th</sup> October 2012 Cabinet approved the replacement Washington Leisure Centre. Significant site surveys were required prior to approval by Cabinet. This along with the need for full planning permission and associated stop orders will require reprofiling of £1.200m into 2013/2014.

## **4.3 Additional Schemes and Cost Variations 2012/2013**

### **4.3.1 Leader and Deputy Leader**

#### **Software Centre**

The Council anticipate achieving savings of £0.860m with total costs of this scheme reducing from £9.742m to £8.882m. This is mainly due to a lower than expected cost for site preparation works and internal design fees.

## **5 Capital Resources 2013/2014**

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 2013.

At the time this report was produced the Coalition Government had released details of capital grants awarded through needs-based formulas from the Department for Transport for Highways Maintenance and Integrated Transport grants and from the Department of Health for Community Capacity grant. These grant awards are shown in the table below. The Council is awaiting details of Education grants and Disabled Facilities grants that will be awarded to support the 2013/2014 capital programme.

Both the Highways Capital Maintenance and Integrated Transport funding blocks in Metropolitan Areas are allocated to the Integrated Transport Authority in that area who vire capital funding between local authorities. Agreed four year allocations to Sunderland are detailed below. The Highways Capital Maintenance Grant includes additional one off funding of £0.804m (£0.520m in 2013/2014 and £0.284m in 2014/2015) allocated in the Chancellor's Autumn Statement on 5<sup>th</sup> December 2012, for which the Council must publish a short statement on its website at the end of each financial year setting out what and where this additional funding has been spent and how it has complemented planned highways capital expenditure.

	<b>2011-12 £000s</b>	<b>2012-13 £000s</b>	<b>2013-14 £000s</b>	<b>2014-15 £000s</b>
Highways Maintenance	2,804	2,919	3,397	3,052
Integrated Transport	2,008	2,141	2,141	3,011
<b>Total Transport</b>	<b>4,812</b>	<b>5,060</b>	<b>5,538</b>	<b>6,063</b>
<b>Department of Health Community Capacity</b>	<b>829</b>	<b>848</b>	<b>843</b>	<b>860</b>

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. Actual capital grant awarded to Sunderland will be reported to Cabinet once they become known.

## **6. Review of the Prudential Indicators and Treasury Management Strategy for 2012/2013**

6.1 The Prudential Indicators for 2012/2013 were approved by the Council on the 7th March 2012 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 the agreed Council Treasury Management Policy and Strategy;
- 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 2012/2013**

6.3 The Borrowing Strategy is based upon the Council's anticipated borrowing requirement and prospects for interest rates. Economists have recently revised their forecasts for the Bank Base Rate, with no change to the current 0.5% rate predicted until after the December 2014 quarter at the earliest. PWLB rates and 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. This uncertainty is expected to continue into the medium term.

6.4 The Government announced in the March 2012 budget plans to introduce a 0.20% discount on PWLB loans under the prudential borrowing regime for those authorities that provided 'improved information and transparency on their locally determined long-term borrowing and associated capital spending plans' and who successfully applied and were eligible for the lower rate. The Council successfully applied to access loans at the lower PWLB certainty rate, which came into effect on 1<sup>st</sup> November 2012 and eligibility lasts until 31<sup>st</sup> October 2013 when authorities must reapply to access the PWLB certainty rate for the following 12 months.

6.5 Taking into account changes to PWLB rates and market conditions no new borrowing has been undertaken in the current financial year upto 30<sup>th</sup> November 2012. The Council's strategy for 2012/2013 is to continue to adopt a pragmatic and flexible approach and to respond to any changing circumstances to seek to secure maximum benefit for the Council. Consideration will be given to various options, including utilising some investment balances to fund the Council's borrowing requirement in 2012/2013.

## **Investment Strategy for 2012/2013**

- 6.6 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 requirements, and finally to secure a reasonable rate of return on its investments.
- 6.7 As at 30<sup>th</sup> November 2012 , the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.90% compared with the benchmark rate (i.e. the 7 day rate) of 0.42%. Performance is therefore very positive and is significantly above the benchmark rate, whilst adhering to the prudent policy agreed by the Council.
- 6.8 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.

## **7. Reasons for Decision**

- 7.1 To respond to variations in proposed expenditure and income which have arisen since the 2012/2013 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 2012/2013.

## **8. Alternative Options**

- 8.1 No alternative options are proposed.

## **9. Impact Analysis**

- 9.1 Impact assessments will be undertaken by Directorates to ensure programmes are delivered within budget.

## **10. List of Appendices**

- 10.1 Appendix A - Other variations to the 2012/2013 capital programme to those previously reported.

## **11. Background Papers**

- 11.1 Sunderland City Council Capital Programme 2011/12 to 2015/16  
Second Capital Review 2012/2013.



## Appendix A

### Scheme Variations since the Second Capital Review 2012/2013

	£000	£000
<b>Reprofiling of Expenditure from 2012/2013 to future years since the Second Review</b>		
<b>Leader and Deputy Leader</b>		
St Marys Boulevard & Magistrates Square	1,014	
Enterprise Zone Infrastructure	(2,000)	
Modernisation Improvements	(1,000)	
Investment Corridors	(990)	
Former Vaux Site Advance Works	(561)	
Digital Challenge	(330)	
Other Schemes	(256)	(4,123)
<b>Cabinet Secretary</b>		
Old Sunderland Townscape Heritage Initiative	(996)	
Seafront – Phase 2	(370)	
Roker Pier and Lighthouse	(364)	
Other Schemes	(136)	(1,866)
<b>Health, Housing and Adults</b>		
Other Schemes		(175)
<b>City Services</b>		
Integrated Transport Schemes	(558)	
Other Schemes	(474)	(1,032)
<b>Public Health, Wellness and Cultural</b>		
Football Investment Strategies	(982)	
Washington Leisure Centre – approved by Cabinet 10 <sup>th</sup> October,	(1,200)	(2,182)
		<b>(9,378)</b>
<b>Technical Adjustments</b>		
Airport Long Term Loan Notes reduction requirement	(5,000)	
Software Centre Phase 2 – expenditure and funding transferred to Revenue	(272)	
Highways Maintenance works funded by borrowing to be repaid on an invest to save basis	600	
Capital Contingency Schemes – reprofiling to 2013/2014	(3,261)	<b>(7,933)</b>
<b>Additional Schemes and Revisions to Scheme Costs 2012/2013 – fully funded</b>		
<b>Leader</b>		
Software Centre		(860)
<b>Health, Housing and Adults</b>		
Cluster of Empty Homes – approved by Cabinet 7 <sup>th</sup> November 2012, funded from Cluster of Empty Homes grant and New Homes Bonus grant (£0.271m in 2012/2013 and £0.673m in 2013/2014)		271
Other Fully Funded Additional Schemes and Variations		(66)
		<b>(655)</b>
<b>TOTAL</b>		<b>(17,966)</b>

