

CABINET MEETING – 18 June 2014

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Capital Programme Outturn 2013/2014 and First Capital Review 2014/2015 (including Treasury Management)

Author(s):

Head of Financial Resources

Purpose of Report:

This report details:

- the Capital Programme Outturn for 2013/2014;
- the outcome of the First Capital Review for 2014/2015 taking account of the Capital Programme Outturn;
- changes made to the Capital Programme 2014/2015 and 2015/2016 since its approval
- an update on the outturn position for 2013/2014 and progress in implementing the Treasury Management Borrowing and Investment Strategy for 2014/2015.
-

Description of Decision:

In relation to the Capital Programme Cabinet is asked

In respect of outturn for 2013/2014 to :

- approve, and where necessary recommend to Council, the inclusion of additional expenditure for 2013/2014 as included at Appendix A, and
- note the overall Capital outturn position for 2013/2014.

In respect of the first capital review for 2014/2015

- approve amendments in resourcing the Capital Programme since it was approved by Council in March 2014, and
- approve and where necessary recommend to Council, the inclusion of additional expenditure for 2014/2015 and 2015/2016 detailed at Appendix B.

In relation to the Treasury Management Strategy Cabinet is asked

- to note the positive progress in implementing the 2014/2015 Treasury Management Strategy and Prudential Indicators.
-

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 report on the outturn position compared to the budget for 2013/2014.

To respond to variations in the Capital Programme which have arisen since the 2014/2015 and 2015/2016 Capital Programme was approved to enable effective budgetary control to be exercised.

To note the progress in implementing the Treasury Management Strategy for 2014/2015, which 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 - capital spending detailed at Appendix B 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 – 18th June 2014

Capital Programme Outturn 2013/2014 and First Capital Review 2014/2015 (including Treasury Management)

Report of the Head of Financial Resources

1. Purpose of Report

1.1 This report details:

- the Capital Programme Outturn for 2013/2014;
- the outcome of the First Capital Programme Review for 2014/2015 taking account of the Capital Programme Outturn;
- changes made to the Capital Programme 2014/2015 and 2015/2016 since its approval;
- an update on the outturn position for 2013/2014 and progress in implementing the Treasury Management Borrowing and Investment Strategy for 2014/2015.

2. Description of Decision:

2.1 Cabinet is recommended to:

In relation to the Capital Programme Cabinet is asked

In respect of outturn for 2013/2014 to:

- approve, and where necessary recommend to Council, the inclusion of additional expenditure for 2013/2014 as included at Appendix A and
- note the overall Capital outturn position for 2013/2014.

In respect of the first capital review for 2014/2015:

- approve amendments in resourcing the Capital Programme since it was approved by Council in March 2014, and
- approve and where necessary recommend to Council, the inclusion of additional expenditure for 2014/2015 and 2015/2016 detailed at Appendix B.

In relation to the Treasury Management Strategy Cabinet is asked

- to note the positive progress in implementing the 2014/2015 Treasury Management Strategy and Prudential Indicators.

3. Introduction

3.1 The capital programme outturn position for 2013/2014 is shown in Section 4. This reflects positive performance and robust budget management across the programme, with the majority of planned expenditure contained within budget.

3.2 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

2014/2015 and 2015/2016 capital programme approved by Council on 5th March 2014 are shown in section 5.

- 3.3 Performance in implementing the Treasury Management Strategy continues to be positive and is detailed in Section 6 along with confirmation that the Council is operating within its agreed borrowing limits and Key Performance Indicators.

4. Capital Outturn 2013/2014

4.1 Summary

- 4.1.1 Since the last capital review in January 2014 and amendments approved in respect of schemes subsequently by Cabinet, there have been changes to the Capital Programme both in terms of expenditure and resourcing. The report sets out details of the net decrease in spending across all capital schemes of £17.184m leading to a final outturn position of £51.015m in 2013/2014.

- 4.1.2 Scheme variations are detailed at Appendix A and are categorised as follows:

- Reprofiled of expenditure between 2013/2014 and future years amounting to £16.714m
- Additional schemes and scheme variations approved since the Capital Programme was last reported leading to a net increase of £0.398m
- Technical adjustments to decrease the Capital Programme by £0.868m.

4.2 Reprofiled Expenditure between 2013/2014 and future years

- 4.2.1 The expenditure and resources to be reprofiled between 2013/2014 and future years amount to £16.714m and are detailed at Appendix A. The primary reasons for this reprofiling relate to external influences outside of the Council's control.

The schemes where there has been significant reprofiling of expenditure and resources are set out below.

4.2.2 Leader

City Centre Hotel Contribution

The planned contribution to the City Centre Hotel of £2.000m has slipped into 2014/2015 following a delay to the potential developer securing the remaining required private sector funding.

Strategic Land Acquisitions

Planning permission requirements for the demolition of Liverpool House and delay to acquisitions of land have resulted in slippage of £0.455m into 2014/2015 against the Strategic Land Acquisitions scheme.

St Mary's Boulevard & City Square

This scheme seeks to open up the Vaux site and create a new, high quality public square. It represents a significant re-shaping of the city centre and is therefore a complex scheme within an existing urban environment. It entails the reconfiguration of

existing highways and extensive underground utilities in previously developed areas. Delays to these utility works beyond the control of the Council's contractor require £0.422m to be slipped into 2014/2015. The latest contract review has identified additional unforeseen costs of £0.717m which primarily relate to utility diversionary activity now notified by utility companies and other technical changes to scheme design to meet safety requirements. The additional costs are to be funded in part by an expected increase in ERDF funding and partial use of the capital contingency held for the scheme. The scheme is still due for completion by the end of 2014, and retention costs of £0.177m have been profiled from 2015/2016 into 2014/2015.

Given the complexity of the scheme additional capital contingencies have been earmarked. This is to support any potential unforeseen requirements as the project goes through the final stages of works to the square itself which will be reported at the second review stage if appropriate.

Demolition of Former Crowtree Leisure Centre

Demolition of the former Crowtree Leisure Centre has progressed in phases to ensure public safety in the busy commercial area. There is therefore a delay to the completion date from March 2014 to June 2014 resulting in slippage of £0.385m into 2014/2015.

Former Vaux Site Advanced Works

Works by the electric company to ensure a safe environment is provided for evaluation and movement of live electric cables regarding the repair of the wall on the Former Vaux Site Advanced Works scheme have resulted in slippage of £0.137m into 2014/2015 and £0.175m into 2015/2016.

4.2.3 Cabinet Secretary

Port Infrastructure

It was previously reported as part of 3rd Review 2013/2014 that £2.500m Port Infrastructure works would slip into future years, allowing time for scheme development and further exploring of external funding opportunities. The original intention was to construct a new warehouse, but an opportunity arose earlier in 2014 to purchase an existing warehouse which the Port were currently renting space within, which would negate the revenue rental expenditure moving forward. The warehouse purchase has now been completed resulting in net acceleration of £1.085m back into 2013/2014. Further Port capital infrastructure proposals are currently being considered alongside external funding opportunities.

Old Sunderland Townscape Heritage Initiative

A delay to the start of the part demolition of the old orphanage due to utility groundwork issues on the Old Sunderland Townscape Heritage Initiative scheme has resulted in slippage of £0.682m into 2014/2015. The renovation of the orphanage is still scheduled for completion summer 2014, along with the allocated funding.

Planned Property Capital Maintenance

Prioritisation of work to ensure Council needs are met in line with smarter working building requirements has resulted in slippage of £0.276m into 2014/2015.

4.2.4 Children's Services

Two Year Old Offer

There is slippage of £0.553m into 2014/2015 regarding the Two Year Old Offer, funded from DfE grant with no time-limited conditions. This is due to permission being required to make structural changes to buildings not owned by the Council which are rented for the use of early years provision.

4.2.5 Health, Housing and Adults

Housing Area Renewal – Hetton Downs

There is slippage of £0.904m into 2014/2015 on the Hetton Downs Housing Area Renewal scheme, along with the funding from the Homes and Communities Agency. The timing of expenditure on area renewals is difficult to forecast and is dependent on legal agreements being reached with property owners as well as identifying suitable alternative properties to rehouse tenants in homes purchased for area regeneration.

Housing Empty Property Schemes

There is a combined slippage of £0.328m into 2014/2015 on the two Housing empty property schemes, along with the allocated funding. Following the review and update of eligibility criteria for home owners to receive a grant or loan, there are 42 properties currently in progress to planned completion and target outcome of 70 properties is expected to be delivered by March 2015.

4.2.6 Public Health, Wellness and Culture

New Washington Leisure Centre

There is slippage of £0.366m into 2014/2015 against the new Washington Leisure Centre however there is no impact on the scheduled opening date of May 2015 for this Centre.

St Peter's Public Realm

There is slippage of £0.331m into 2014/2015 for the St Peters Public Realm (world heritage site at Wearmouth/Jarrow) due to ongoing negotiations with all partners to approve the project.

4.2.7 City Services

Waste Transfer Station

The liability for the Waste Transfer Station at Jack Crawford House arises when the final Acceptance Certificate is issued. Following extensive continuous performance testing, this was issued late April 2014 resulting in slippage of £5.695m into 2014/2015.

Bridge Maintenance

There is slippage of £0.614m for Bridge Maintenance works. This includes works to Manor Road and Burdon Road bridges delayed to commence early summer to take advantage of better weather and lower traffic levels.

Transport Schemes

Prioritisation of work for RGF funded transport schemes to ensure full maximisation of that time-limited grant have resulted in slippage of £0.362m into 2014/2015 for Integrated Transport schemes.

Flood & Extreme Weather Mitigation

There is slippage of £0.360m into 2014/2015 for the Flood and Extreme Weather Mitigation scheme. Slippage includes a delay to the potential purchase of water pumps requiring testing in appropriate wet weather conditions.

4.3 Additional Schemes and Cost Variations 2013/2014

- 4.3.1 A variety of fully funded schemes and cost reductions as a result of finalising scheme details have been included in the programme leading to a net increase of £0.398m. Appendix A gives a summary of these changes for 2013/2014 with the main variation set out below:

5. First Capital Review 2014/2015

- 5.1.1 Since the Capital Programme was reported to Council in March 2014, there have been some changes required to the programme both in terms of expenditure and resourcing. In total, reprofiling and other adjustments have led to the 2014/2015 Capital Programme increasing by £34.140m to £114.862m. This is analysed as follows:

- An increase due to reprofiled expenditure between 2013/2014 and 2014/2015 of £17.624m and is therefore the primary reason for almost half of the increase;
- An increase due to reprofiled expenditure of £0.177m between 2014/2015 and 2015/2016;
- An increase as a result of additional fully funded schemes and cost variations notified since the Capital Programme was last reported of £13.519m.
- Technical adjustments to increase the Capital Programme by £2.820m.

- 5.1.2 In addition reprofiling and other adjustments have led to the 2015/2016 Capital Programme increasing by £4.895m to £79.144m. This is analysed as follows:

- A decrease due to reprofiled expenditure between 2013/2014 and 2015/2016 of £0.910m;
- A decrease due to reprofiled expenditure of £0.177m between 2014/2015 and 2015/2016;
- An increase as a result of additional fully funded schemes and cost variations notified since the Capital Programme was last reported of £5.982m.

Appendix B gives a summary of the changes to expenditure and resources for 2014/2015 and 2015/2016 with the principal variations set out below:

5.2 Additional Schemes and Cost Variations 2014/2015

5.2.1 Leader

Beacon of Light Contribution

It is proposed to make a £3.000m contribution to Foundation of Light for the development and construction of an events facility at Stadium Park. This will provide a cost effective method to satisfy the aspiration for an indoor events venue able to

accommodate up to a 4,000 capacity standing audience. £0.500m of this contribution is profiled for use in 2014/2015 and £2.500m in 2015/2016, and is to be funded by resources earmarked in Capital Contingencies.

5.2.2 City Services

Sunderland Riverside, Stadium Park

Cabinet approved on March 12th 2014 the acquisition of land and assets at Sunderland Riverside, Stadium Park from the HCA at nil purchase price. To ensure that these riverside sites are maintained to a high standard, the acquisition was subject to a payment to the Council of a commuted sum in the region of £3.000m. Of this £3.000m, an estimate of £1.158m has been identified for capital works, with estimate of £0.866m in 2014/2015 and the balance of £0.292m in 2015/2016. The remaining £1.842m is earmarked for annual maintenance costs and potential further capital works if required.

Sunderland Strategic Transport Corridor (SSTC) Phase 3 - Design & Development

SSTC Phase 3 is the critical final link in completing the continuous dual carriageway between the A19 and the City Centre and the completion is vital to fully secure the transport benefits of Phase 1 and 2 of the SSTC. It has been included as a future year priority scheme within the North East LEP Strategic Economic Plan (SEP) submitted to Government on 31st March 2014 with the aim of securing external funding. In order that the scheme is best placed to compete with others in the SEP, there is a need to undertake extensive and comprehensive development and design work for the scheme. This will include obtaining statutory approvals, assembling land, detailed design, obtaining planning permission and contractor procurement. The cost of this work is estimated to be up to £4.000m with £0.600m estimated for 2014/2015, and is to be funded initially from Local Transport Plan Capital grant pending confirmation of SEP priorities.

Highways Maintenance

DfT confirmed, on 31st March 2014, additional funding of £0.127m Capital (and £0.219m Revenue) allocated to help repair roads damaged by the wet weather over winter.

Local Sustainable Transport Fund – Safer School Routes

Following confirmation recently of funding available from the NE Combined Authority of the DfT Local Sustainable Transport Fund grant, £0.108m is available to enhance delivery of safer school routes through the City by March 2015.

5.3 Additional Scheme 2015/2016

The proposed new Sunderland College campus on Holmeside will see a new 11,500 square metre development built on the land opposite Park Lane Transport Interchange, and will accommodate up to 2,000 students and over 120 staff. The development will provide a significant boost for the city centre with students and staff bringing significant footfall and additional spending power into the city centre.

The proposal has a direct strategic fit with the Economic Masterplan, both Aim 1 which seeks to promote a strong learning ethic in the city and Aim 3 seeking to improve the city centre's performance. The College has secured funding for this £29.000m development of £10.000m from the Skills Funding Agency alongside contributing a

significant amount of £16.000m from its own resources. In support of this development it is proposed that the Council makes a contribution of £3.000m which it is proposed will be funded through savings on debt charges as a result of slippage in the capital programmer in 2013/2014. This contribution is likely to be required during 2015/2016.

6. Review of the Prudential Indicators and Treasury Management Strategy for 2014/2015

6.1 The Prudential Indicators for 2014/2015 were approved by the Council on the 5th March 2014 and are regularly reviewed to ensure that:

- the Council remains within it's 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.

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 – 2013/2014 and Current Position

6.3 The Council's strategy for 2013/2014 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Council. No new PWLB borrowing or debt rescheduling was undertaken as rates were not considered to be sufficiently favourable. However the Council has secured £1.148 million from the LEP Growing Places Fund at 0% interest to part finance specific capital schemes.

6.4 The Council's strategy for 2014/2015 is to continue with its pragmatic and flexible approach to secure benefit for the Council. A benchmark financing rate of 5.0% for long-term borrowing was set in the Treasury Management Policy and Strategy Statement for 2014/2015. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing or debt rescheduling has been undertaken in the current financial year to 31st May 2014. Consideration will be given to various options, including utilising some investment balances to fund the Council's borrowing requirement in 2014/2015.

Investment Strategy – 2013/2014 and Current Position

6.5 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.

6.6 During 2013/2014 the Council did not employ any external fund managers with all investments managed by the in-house team, achieving a rate of return on its investments of 1.03% compared with the 7 day London Interbank Bid (LIBID) rate of

0.35% which the Council uses as a benchmark for its investments. This performance is significantly above the benchmark rate and in the top quartile when compared to other local authorities, whilst adhering to the prudent policy agreed by the Council

6.7 As at 30th May 2014, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.58% compared with the 7 day LIBID rate of 0.34%. This reduction in performance compared to 2013/2014 reflects a significant reduction in investment rates available from counterparties included on the Council's lending list but it is still higher than the comparable benchmark rate.

6.8 In 2014/2015, with short-term investment rates forecast to be materially below long-term borrowing rates, it is likely that some investment balances may temporarily be used to fund long-term borrowing requirements or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be reassessed if and when the appropriate conditions arise

7. Reasons for Decision

7.1 To report on the outturn position compared to the budget for 2013/2014, respond to variations in expenditure and income which have arisen in 2014/2015 and to update Cabinet on the progress in implementing the Treasury Management Borrowing and Investment Strategy for 2014/2015.

8. Alternative Options

8.1 No alternative options are proposed.

9. Impact Analysis

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

10. List of Appendices

Appendix A - Reprofiting of Expenditure and Resources between 2013/2014 and future years and other capital scheme variations to those previously reported.

Appendix B - Other variations to the 2014/2015 and 2015/2016 capital programme to those previously reported.

11. Background Papers

Sunderland City Council Capital Programme 2013/14 to 2017/18.
Third Capital Review 2013/2014.

Appendix A

Reprofiling of Expenditure and Resources between 2013/2014 and future years

	£000	£000
Reprofiling into 2014/2015		
Leader		
City Centre Hotel Contribution	(2,000)	
Strategic Land Acquisitions	(455)	
St Mary's Boulevard & City Square	(422)	
Demolition of Crowtree Leisure Centre	(385)	
Former Vaux Site Advanced Works	(137)	
Other Schemes	(421)	(3,820)
Deputy Leader		
Other Schemes	(535)	(535)
Cabinet Secretary		
Old Sunderland Townscape Heritage Initiative	(682)	
Economic Development Provision – spend dependent on compliance with grant conditions	(636)	
Planned Property Capital Maintenance	(276)	
Other Schemes	(543)	(2,137)
Children's Services		
Two Year Old Offer	(553)	
Other Schemes	46	(507)
Health, Housing and Adults		
Hetton Downs Area Renewals	(904)	
Housing Empty Property Schemes	(328)	
Other Schemes	(360)	(1,592)
Public Health, Wellness and Culture		
New Washington Leisure Centre	(366)	
St Peter's Public Realm	(331)	
Other Schemes	(487)	(1,184)
City Services		
Waste Transfer Station	(5,695)	
Bridge Maintenance	(614)	
Transport Schemes	(362)	
Flood & Extreme Weather Mitigation	(360)	
Other Schemes	(767)	(7,798)
Responsive Services and Customer Care		
Other Schemes	(51)	(51)
		(17,624)
Reprofiling into/from 2015/2016		
Leader - Former Vaux Site Advanced Works	(175)	
Cabinet Secretary - Port Infrastructure	1,085	910
Total Reprofiling		(16,714)

Appendix A

Other 2013/2014 variations from those previously reported

	£000	£000
Additional Schemes and Revisions to Scheme Costs 2013/2014 - Fully Funded		
Leader		
Factory Improvement Works – approved by Cabinet 12 th February 2014, funded by borrowing (£0.296m spend in 2013/2014 and £8.851m estimated 2014/2015)		296
Other Fully Funded Additional Schemes and Variations		102
Total Additional / Amended Schemes		398
Technical Adjustments		
Capital Contingencies – Reprofiting into 2014/2015	(4,320)	
Refuse Vehicles purchased by borrowing instead of planned leasing following option appraisal	2,799	
Property Planned Capital Maintenance – spend and funding transferred to Revenue	(400)	
School Asset Management Programmes – contribution from Diocese	527	
Intangible Assets – Software Licenses – funded from Directorate Resources – spend and funding transferred from Revenue	304	
Waste Containers and Bins purchased by borrowing to be repaid on an invest to save basis	151	
Regional Loans Scheme – scheme costs recovered from third party contributions	141	
Economic Development Provision – spend and funding transferred to Revenue	(70)	(868)
TOTAL VARIATIONS 2013/2014		(17,184)

Appendix B

Variations from those reported in the Original 2014/2015 and 2015/2016 Programme

	£000	£000
Reprofiling of Expenditure between 2013/2014 and 2014/2015		17,624
Reprofiling of Expenditure between 2014/2015 and 2015/2016		
Leader - St Mary's Boulevard & City Square		177
Additional Schemes and Variations to Existing Schemes - Fully Funded		
Leader		
Factory Improvement Works – approved by Cabinet 12 th February 2014, funded by borrowing (£0.296m spend in 2013/2014 and £8.851m estimated 2014/2015)	8,851	
St Mary's Boulevard & City Square	717	
Beacon of Light Contribution	500	10,068
Health, Housing and Adults		
Low Carbon Social Housing Pilot – approved by Cabinet 12th March 2014, fully funded by ERDF grant and Gentoo (£1.710m 2014/2015 and £0.190m 2015/2016)		1,710
City Services		
Sunderland Riverside, Stadium Park	866	
SSTC Phase 3 – Design & Development	600	
Highways Maintenance	127	
Local Sustainable Transport Fund – Safer School Routes	108	1,701
Other Fully Funded Additional Schemes and Variations		40
Total Additional / Amended Schemes		13,519
Technical Adjustments		
Capital Contingencies – Reprofiling from 2013/2014	4,320	
Capital Contingencies – Transfer into Capital schemes	(1,100)	
Property Planned Capital Maintenance – spend and funding transferred to Revenue	(400)	2,820
TOTAL VARIATIONS 2014/2015		34,140
Reprofiling of Expenditure between 2013/2014 and 2015/2016		(910)
Reprofiling of Expenditure between 2014/2015 and 2015/2016		(177)
Additional Schemes and Variations to Existing Schemes - Fully Funded		
Leader - New Sunderland College Contribution	3,000	
Leader - Beacon of Light	2,500	
Health, Housing and Adults - Low Carbon Social Housing Pilot	190	
City Services - Sunderland Riverside, Stadium Park	292	
		5,982
TOTAL VARIATIONS 2015/2016		4,895

