

## CABINET MEETING –14 JULY 2022

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Capital Programme First Review 2022/2023 (including Treasury Management)

**Author(s):**

Executive Director of Corporate Services

**Purpose of Report:**

This report details:

- the outcome of the First Capital Review for 2022/2023; and
- progress in implementing the Treasury Management Borrowing and Investment Strategy for 2022/2023.

**Description of Decision:**

Cabinet is recommended to:

- In respect of the first capital review for 2022/2023 to approve the inclusion of additional schemes or variations to existing schemes for 2022/2023 detailed at Appendix A; and
- In relation to the Treasury Management Strategy, Cabinet is asked to note the progress in implementing the 2022/2023 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:**

As included in the Council's constitution, Cabinet is required to exercise control over capital spend and resources and receives quarterly reports to support this. This report notes the inclusion of additional capital schemes since approval by Council on 2nd March 2022.

Cabinet is also requested to note the progress in implementing the Treasury Management Strategy for 2022/2023, 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 the Decision consistent with the Council's co-operative values?** Yes

**Is this a "Key Decision" as defined in the Constitution?** Yes - additional capital spending detailed at Appendix B estimated to cost above £500,000.

**Is it included in the 28 Day Notice of Decisions?** Yes

**CAPITAL PROGRAMME FIRST REVIEW 2022/2023 (INCLUDING TREASURY MANAGEMENT)**

**Report of the Executive Director of Corporate Services**

**1. Purpose of Report**

**1.1** This report details:

- the outcome of the First Capital Review for 2022/2023; and
- progress in implementing the Treasury Management Borrowing and Investment Strategy for 2022/2023.

**2. Description of Decision:**

**2.1** Cabinet is recommended to:

- In respect of the first capital review for 2022/2023 to approve the inclusion of additional schemes or variations to existing schemes for 2022/2023 detailed at Appendix A; and
- In relation to the Treasury Management Strategy, Cabinet is asked to note the progress in implementing the 2022/2023 Treasury Management Strategy and Prudential Indicators.

**3. Introduction**

- 3.1** The Capital Programme changes during the year as notifications of additional schemes and resourcing are received and the phasing of schemes is reviewed. Variations to the 2022/2023 capital programme since the 2021/2022 Capital Outturn report to Cabinet on 9<sup>th</sup> June 2022, are shown in section 4 of this report.
- 3.2** Performance in implementing the Treasury Management Strategy and adhering to the agreed Prudential Indicators is detailed in section 5 along with confirmation that the Council is operating within its agreed borrowing limits.

**4. Capital Programme First Review 2022/2023**

- 4.1** Since the Capital Programme was reported to Council in March 2022, there have been changes to the 2022/2023 Capital Programme both in terms of expenditure and resourcing. In June 2022 the Capital Programme Outturn position for 2021/2022 was reported to Cabinet, which included reprofiling of expenditure from 2021/2022 to 2022/2023 totalling £46.052m and a funded cost increase of £0.400m in 2022/2023, resulting in a revised budget of £341.993m for the 2022/2023 financial year. During the first quarter of 2022/2023 further reprofiling and other adjustments have been identified increasing the Capital Programme by £1.603m to £343.596m. This is summarised below:

- Reprofiled expenditure of £10.664m from 2022/2023 into future years. The primary reasons for this reprofiling relate to external influences outside of the Council's control, including as a result of impacts from Covid-19 and Ukraine War, or the realignment of projects to ensure best value is achieved; and
- Additional schemes and scheme variations approved since the Capital Programme update, leading to a net increase of £12.267m in 2022/2023.

- 4.2 Appendix A sets out the detail of the above changes to expenditure and resources for 2022/2023, which is based on the updated Cabinet Portfolio responsibilities.
- 4.3 The Capital Programme delivery has been impacted by the Covid-19 pandemic since March 2020. The Capital Programme Reviews for 2021/2022 reported to Cabinet during that year advised that industry commentators were indicating that uncertainties continue, with upward cost pressures on construction contracts being exacerbated by global supply issues for raw materials (both availability and the timing of supplies) alongside labour cost pressures, and that this may manifest itself in further increases in cost and delays. These pressures to the capital programme remain and have increased further due to the impact of the Ukrainian war on materials supply and price, in particular of steel, impacting on the cost and timescales of some projects. As reported in the 2021/2022 outturn report to Cabinet in June 2022, there was confirmation that cost pressures are now manifesting themselves in tender pricing. The capital programme impact continues to be closely monitored and will be reported to Cabinet as necessary, following receipt of future tender prices.

## **5. Review of the Prudential Indicators and Treasury Management Strategy for 2022/2023**

- 5.1 The Prudential Indicators for 2022/2023 were approved by the Council on 2nd March 2022 and are regularly reviewed to ensure that:
- the Council remained 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; and
  - the Capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.
- 5.2 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 of concern or any issues which require any review of the indicators as originally approved.

### **Borrowing Strategy – 2022/2023**

- 5.3 The Council's strategy for 2022/2023 is to continue to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow to secure benefit for the Council. A benchmark financing rate of 3.00% for long-term borrowing was set in the Treasury Management Policy and Strategy Statement for 2022/2023 reflecting the views prevalent at the time.

- 5.4 Due to the underlying need to borrow for capital purposes (the Capital Financing Requirement – CFR), new borrowing of £100m was prudently undertaken in December from the Public Works Loans Board (PWLB) at a historically low rate of 1.4%. Borrowing rates have since risen but delays in capital programme activity have not necessitated any further borrowing since then. Borrowing rates will continue to be closely monitored and consideration will be given to various options, including utilising some investment balances to fund the Council's borrowing requirements in 2022/2023.

### **Investment Strategy – 2022/2023**

- 5.5 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 the Council's liabilities, and finally to secure a reasonable rate of return on its investments.
- 5.6 On the 15<sup>th</sup> June 2022, the Bank of England's Monetary Policy Committee (MPC) announced it had raised interest rates for the 5<sup>th</sup> meeting in a row, increasing the Bank Rate by 0.25 percentage points to 1.25%. Rates are forecast to continue to increase and will remain under constant review.
- 5.7 As at 30<sup>th</sup> May 2022 the Council achieved a rate of return on its investments of 0.61% compared with the benchmark rate SONIA (Sterling Overnight Index Average) rate of -0.80%. Performance to date is below the benchmark rate, due to some longer term investments placed during 2021/2022 being made when only lower rates of return were available in the market. As these investments mature and are reinvested at the now higher rates, the benchmark rate should be surpassed. Recent placements of investments have been at rates considerably higher than the benchmark rate.

## **6. Reasons for Decision**

- 6.1 As included in the Council's constitution, Cabinet is required to exercise control over capital spend and resources, and as such receives quarterly reports to support this. This report notes the inclusion of additional capital schemes since Council on 2nd March 2022.
- 6.2 Cabinet is also requested to note the progress in implementing the Treasury Management Strategy for 2022/2023, which is in line with the approved Treasury Management Policies.

## **7. Alternative Options**

- 7.1 No alternative options are proposed.

## **8. Impact Analysis**

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

## **9. List of Appendices**

9.1 Appendix A – Variations to the 2022/2023 Capital Programme.

## **10. Background Papers**

Capital Programme 2022/2023 to 2025/2026 and Treasury Management Policy and Strategy 2022/2023, including Prudential Indicators for 2022/2023 to 2025/2026.

Capital Programme Outturn 2021/2022.

## Variations to the 2022/2023 Capital Programme

Portfolio / Project	Latest Revised Budget 2022/2023 £'000 **	Reprofiling of Expenditure 2022/2023 £'000	Additional Schemes and Cost Variations to Existing Projects 2022/2023 £'000	Technical Adjustments 2022/2023 £'000	Revised Budget 2022/2023 £'000	Comment
<b>Deputy Leader and Clean Green City</b>						
Flood and Extreme Weather Mitigation	500	0	717	0	1,217	Funding from the Environment Agency has been secured for several schemes, from which £0.717m will be used to finance works in 2022/2023. Schemes include culvert improvements at Lake Road, Jack Crawford House and Fencehouses. Also, investigation works that may lead to further improvements including at Hetton, Caithness Road and North Moor Lane.
Play and Urban Games	160	0	423	0	583	Upgrade of play areas including at Durham Road, Thompson Park, Low Moorsley and Hetton Lyons Country Park, Sunderland Adventure Centre and St Matthews Field, fully funded by £0.423m S106 developer contributions.
Port General Infrastructure, Equipment & Plant	280	0	60	0	340	The £0.060m received from the sale of the Port's pilot cutter Triton will be utilised to purchase a new pair of mechanical diesel engines for the Port's pilot cutter Heron. These assets require immediate replacement as Scania (the original equipment manufacturer) no longer manufacture these or support with spare parts.
Vehicle Replacement Programme	7,266	(577)	0	0	6,689	The timing of vehicle replacements is continuously reviewed to ensure vehicles are only replaced when needed i.e. seeking maximum economic life from the fleet whilst taking in to account maintenance costs. This has resulted in £0.577m of the budget to be reprofiled from 2022/2023 into 2023/2024.

Portfolio / Project	Latest Revised Budget 2022/2023 £'000 **	Reprofiling of Expenditure 2022/2023 £'000	Additional Schemes and Cost Variations to Existing Projects 2022/2023 £'000	Technical Adjustments 2022/2023 £'000	Revised Budget 2022/2023 £'000	Comment
Other Projects	54,895	0	0	0	54,895	No variations.
<b>Total Deputy Leader and Clean Green City</b>	<b>63,101</b>	<b>(577)</b>	<b>1,200</b>	<b>0</b>	<b>63,724</b>	
<b>Total Cabinet Secretary</b>	<b>25,950</b>	<b>0</b>	<b>(91)</b>	<b>0</b>	<b>25,859</b>	<b>Minor variation only.</b>
<b>Children, Learning &amp; Skills</b>						
Schools Devolved Capital	538	0	0	0	538	The 2022/2023 capital allocations for schools devolved funding have been confirmed at £0.302m. This will be profiled for use in 2023/2024 but can be accelerated if required. The £0.538m currently profiled for use in 2022/2023 is from prior years allocations.
Sunderland Pupil Referral Unit	0	0	600	0	600	Cabinet approved on 9th June 2022 to increase the capacity of Sunderland's Pupil Referral Unit, with the estimated cost of £0.600m to be funded from the schools High Needs Capital funding.



Portfolio / Project	Latest Revised Budget 2022/2023 £'000 **	Reprofiling of Expenditure 2022/2023 £'000	Additional Schemes and Cost Variations to Existing Projects 2022/2023 £'000	Technical Adjustments 2022/2023 £'000	Revised Budget 2022/2023 £'000	Comment
School's Asset Management Unallocated	3,240	0	1,488	0	4,728	<p>The Council has been awarded £2.847m School High Needs Capital funding in 2022/2023, of which £0.600m has been allocated towards the above works at the Sunderland Pupil Referral Unit, leaving a balance of £2.247m currently unallocated.</p> <p>In addition, the Schools Condition Allocation has been confirmed at £1.514m, an increase of £0.417m to the indicative allocation already in the Capital Programme; of this £1.176m has been allocated to planned School Condition Works (below scheme), leaving a current unallocated balance of £0.338m.</p> <p>The total currently unallocated, including £2.143m brought forward from prior years allocations is therefore £4.728m. Within the unallocated budget, it is proposed to set aside £1.281m to support un-scheduled winter maintenance pressures at schools for boilers, roof repairs, etc. This would leave £3.447m for other school priorities including emerging cost pressures on the current school's capital programme linked to construction price increases and a review of requirements to meet changing need. Updates will be reported to Cabinet as necessary.</p>
School Condition Works	0	0	1,176	0	1,176	Allocated from school capital grant allocations, see above.
Newbottle Primary Academy Extension & ASD Unit	2,155	(1,750)	0	0	405	<p>The extension works to the Newbottle Primary school have progressed with provision of a new car park and access road. However, the design of the extension to the building and provision of the ASD (Autism Spectrum Disorder) Unit is still being considered to provide the optimum size ASD Unit and allow low carbon measures to be further integrated. As a result, £1.750m is to be re-profiled from 2022/2023 into future years and is now scheduled to complete in 2024/2025.</p>

Portfolio / Project	Latest Revised Budget 2022/2023 £'000 **	Reprofiling of Expenditure 2022/2023 £'000	Additional Schemes and Cost Variations to Existing Projects 2022/2023 £'000	Technical Adjustments 2022/2023 £'000	Revised Budget 2022/2023 £'000	Comment
Thorney Close Primary School New Build	456	103	0	0	559	The demolition of the current Sunningdale School buildings, which will site the new Thorney Close Primary School, is to be advanced resulting in £0.103m budget to be accelerated to into 2022/2023.
Other Projects	19,738	0	0	0	19,738	No variations.
<b>Total Children, Learning &amp; Skills</b>	<b>26,127</b>	<b>(1,647)</b>	<b>3,264</b>	<b>0</b>	<b>27,744</b>	
<b>Dynamic City</b>						
Vaux Housing	22,869	(6,973)	0	0	15,896	The new residential scheme on the former Vaux site to consist of high-quality carbon neutral dwellings for rent and sale is progressing well. The main contractor was appointed Summer 2021 and the initial phase of enabling works have been completed. Following detailed market testing and value engineering the main development works are now scheduled to commence on site on 20th June 2022. In recognition of the revised programme of works, £6.973m is to be re-profiled from 2022/2023 into future years. The first units are scheduled to complete in December 2023 with further phases completing in Spring 2024.
Dilapidations of Unit 6, IAMP	0	0	2,200	0	2,200	Cabinet approved on 22nd March 2022, the dilapidation works to Unit 6, IAMP. The works are to be funded by the NHS following their tenancy termination.
International Innovation Centre	1,943	0	(1,943)	0	0	Following the prior completion of construction of the International Innovation Centre scheme (now referred to as Unit 6 IAMP above), there is a saving to the Capital Programme of £1.943m.

Portfolio / Project	Latest Revised Budget 2022/2023 £'000 **	Reprofiling of Expenditure 2022/2023 £'000	Additional Schemes and Cost Variations to Existing Projects 2022/2023 £'000	Technical Adjustments 2022/2023 £'000	Revised Budget 2022/2023 £'000	Comment
Highways Maintenance	3,891	0	1,800	0	5,691	The approved 2022/2023 Capital Programme included estimated funding for Highways Maintenance (£2.294m) and Integrated Transport (£1.618m) grants for 2022/2023, based on allocations for prior years. The Department for Transport has now confirmed these allocations are as estimated, but also with the addition of a £1.835m Pothole grant. It is proposed to allocate the majority (£1.800m) of the Pothole grant for Highways Maintenance, and £0.035m to further support Integrated Transport works.
Holmeside Bus Rationalisation (Highways Improvement)	894	0	1,747	0	2,641	Cabinet approved (22nd March 2022) the delivery and funding of the Holmeside Bus Rationalisation (Highways Improvement) project, a one-way gyratory system and public realm works. The total estimated cost is £2.885m, with £2.641m profiled for use in 2022/2023. All funding is from the current approved Capital Programme, including £1.135m for the approved budget for this project, £0.750m to deliver the public realm works around the central station and £1.000m from the Integrated Transport project.
Railway Station Public Realm	747	0	(747)	0	0	Works now to be delivered as part of the above project - £0.750m in total, with £0.747m in 2022/2023 following £0.003m spend in 2021/2022.
Integrated Transport	2,026	0	(933)	0	1,093	Following re-allocation of £1.000m to support the Holmeside Bus Rationalisation project and a proposed re-allocated of £0.067m from the Highways and Bridge Maintenance budgets to this scheme, the revised budget in 2022/2023 for Integrated Transport is £1.093m.

Portfolio / Project	Latest Revised Budget 2022/2023 £'000 **	Reprofiling of Expenditure 2022/2023 £'000	Additional Schemes and Cost Variations to Existing Projects 2022/2023 £'000	Technical Adjustments 2022/2023 £'000	Revised Budget 2022/2023 £'000	Comment
Inspiring Futures Programme	3,041	(1,467)	0	0	1,574	The Inspiring Futures Programme will provide accommodation and support for those who are homeless, have complex needs and require support to move forward with their lives towards independent living. To date there has been difficulty sourcing suitable locations resulting in £1.467m budget is to be reprofiled from 2022/2023 into future years. Suitable locations continue to be explored, and once secured, funding from the Department for Levelling Up, Homes and Communities will be requested to support the developments.
Social Housing Decarbonisation Fund (SHSF) Wave 1	0	0	1,237	0	1,237	Cabinet approved on 22nd March 2022, the delivery of the Social Housing Decarbonisation Fund (SHSF) Wave 1 project. The £1.237m budget is fully funded by the Department for Business, Energy and Industrial Strategy. The Council, as lead applicant for this grant, is working closely with Gentoo as a key registered provider in the city to provide decarbonisation upgrade works to 604 social housing units owned by Gentoo across Sunderland including loft insulation, a combination of loft and window upgrades and fabric enhancements, such as external wall insulation and flat roof upgrades.
Warm Homes Fund (WHF)	0	0	314	0	314	Cabinet approved on 22nd March 2022, the delivery of the Warm Homes Fund (WHF). The £0.314m budget is fully funded by Affordable Warmth Solutions. The project aims to install 135 air source heat pumps at both privately owned and privately rented properties.
Other Projects	170,105	0	64	0	170,169	Minor fully funded variances.
<b>Total Dynamic City</b>	<b>205,516</b>	<b>(8,440)</b>	<b>3,739</b>	<b>0</b>	<b>200,815</b>	

Portfolio / Project	Latest Revised Budget 2022/2023 £'000 **	Reprofiling of Expenditure 2022/2023 £'000	Additional Schemes and Cost Variations to Existing Projects 2022/2023 £'000	Technical Adjustments 2022/2023 £'000	Revised Budget 2022/2023 £'000	Comment
Healthy City						
Disabled Facilities Grants	894	0	4,155	0	5,049	The national allocations for the Disabled Facilities Grant (DFG) 2022/2023 have been confirmed at £573m. Whilst there has not been confirmation yet of individual Local Authority allocations, the national amount is the same as the prior three years, which provided a total of £4.055m to Sunderland. It is proposed therefore to include this value in the Capital Programme pending formal confirmation. Also, as in recent years, there is further funding available for DFGs of £0.100m from Gentoo; this brings the total additional budget in 2022/2023 to £4.155m.
Other Projects	4,090	0	0	0	4,090	No variations.
<b>Total Healthy City</b>	<b>4,984</b>	<b>0</b>	<b>4,155</b>	<b>0</b>	<b>9,139</b>	
<b>Total Vibrant City</b>	<b>16,315</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16,315</b>	<b>No variations.</b>
<b>TOTAL CAPITAL PROGRAMME</b>	<b>341,993</b>	<b>(10,664)</b>	<b>12,267</b>	<b>0</b>	<b>343,596</b>	

**\*\* Note – Reconciliation to Original Approved 2022/2023 Capital Programme**

<i>Cabinet 9th June 2022 – Capital Programme Outturn 2021/2022</i>	(46,452)					<i>2021/2022 Outturn: Reprofiling of expenditure between 2021/2022 and 2022/2023, and cost variances in 2022/2023, reported to Cabinet 9th June 2022.</i>
<b>ORIGINAL 2022/2023 CAPITAL PROGRAMME</b>	<b>295,541</b>					<b>Original Capital Programme approved by Full Council 2nd March 2022</b>