

CABINET MEETING – 9th October 2013

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Second Capital Review 2013/2014 (including Treasury Management)

Author(s):

Executive Director of Commercial and Corporate Services

Purpose of Report:

This report details:

- reprofiling of projects since the First Capital Review for 2013/2014 was approved in June 2013;
- the inclusion of additional schemes and revisions to costs and resourcing for 2013/2014 since the First Capital Review was reported;
- the progress in implementing the Treasury Management Strategy for 2013/2014.

Description of Decision:

In relation to the Capital Programme, 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, and

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 First Capital Review 2013/2014 was approved to enable effective budgetary control to be exercised.

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

☒

<p>Is this a “Key Decision” as defined in the Constitution?</p> <p>Yes</p> <p>Is it included in the 28 Day Notice of Decisions?</p> <p>Yes</p>	<p>Scrutiny Committee</p>
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Cabinet – 9th October 2013

Second Capital Review 2013/2014 (including Treasury Management)

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.1 This report details:

- reprofiling of projects since the First Capital Review for 2013/2014 was approved in June 2013;
- the inclusion of additional schemes and revisions to costs and resourcing for 2013/2014 since the First Capital Review was reported;
- the progress in implementing the Treasury Management Strategy for 2013/2014.

2. Description of Decision:

2.1 Cabinet is requested:

In relation to the Capital Programme, 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, and

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

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 that was reported to Cabinet on 19th June 2013 are shown in section 4 of this report.

3.1 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. Second Capital Review 2013/2014

4.1 Further to recent reports to Cabinet, the report sets out details of the net decrease in the 2013/2014 Capital Programme of £12.494m to £79.665m. This can be analysed as follows:

- Reprofiling expenditure of £7.332m 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 £0.329m;
- Technical Adjustments of £5.491m.

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

4.2 Reprofiting 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 Leader

Investment Corridors

The profile of works in respect of Investment Corridors has been revised to take into account the current works around St Marys Boulevard and Magistrates Square, and in order to avoid two contractors on site in the same area resulting in £0.517m being re-profiled into 2014/2015.

City Deal

Work is progressing in finalising the City Deal submission for Sunderland and South Tyneside. At this stage £0.326m is to be re-profiled into 2014/2015.

4.2.2 Cabinet Secretary

Seafront Strategy

A later start than initially planned to works on Whitburn/Lowry Roads requires £1.460m to be re-profiled into 2014/2015. The scheme remains on schedule for completion by January 2015 as originally planned.

Port Dock Gate Repairs

The scope and time programme for the works is currently being revised to enable the works to be undertaken during a longer time frame which will result in better value for money being achieved from the works. As a consequence £0.513m has been re-profiled into 2014/2015.

Roker Pier and Lighthouse

The Specification for works to the pier deck and structural repairs to Roker Pier and Lighthouse have been reviewed in order to ensure only one contractor will be on site resulting in £0.473m being re-profiled into 2014/2015.

Low Water Corrosion / Riverside Repairs

To allow full analysis of the condition of marine structures, survey works in respect of Low Water Corrosion / Riverside Repairs are expected to be ongoing into next year, requiring £0.200m to be re-profiled into 2014/2015.

4.2.3 City Services

Central and Southern Routes

The majority of the remaining land acquisitions for the Central and Southern Routes are not expected to complete until 2014/2015, as the timing is dependent upon discussions with landowners. Therefore £0.599m has been re-profiled into 2014/2015.

4.2.4 Public Health, Wellness and Culture

World Heritage Site Public Realm

Detailed design work continues for environmental improvements to the grounds of St Peter's church, including the interpretation of the monastic footprint. To inform the final designs an archaeological investigation needs to take place to ensure that the planned works are not detrimental to the archaeological remains around the church. As a result £1.218m is to be re-profiled into 2014/2015.

Washington Leisure Centre

Following the completion of the tender process the programme of works has been updated with £1.209m requiring re-profiling into 2014/2015. At this stage there is no impact on the completion date, with work envisaged to start on site early next year and be completed in spring/summer 2015.

4.3 Additional Schemes and Cost Variations 2013/2014

4.3.1 Cabinet Secretary

Port Plant and Equipment

To support the ongoing growth of the Port's business, £0.150m is to be invested to purchase a new heavy forklift truck and meet additional costs of the purchase of a Pilot Cutter. The cost is to be funded from the Port Reserve.

4.3.2 Children's Services

Children's Services Initiatives

The 2013/2014 programme includes for £0.700m for investment in a new independent living units (ILU's) and a new children's home. Following a review of the Looked After Placement Strategy and the age profile of looked after children, £0.500m has been re-profiled into future years.

4.3.3 Public Health, Wellness and Culture

Hylton Castle Development

Confirmation has been received of a successful bid for round one development grant from the Heritage Lottery Fund. This grant is provided as a contribution to the development of a project that will restore and transform Hylton Castle and Dene into an educational and cultural resource for the North East. The cost of the project development is £0.165m, with £0.115m met from the Heritage Lottery Fund and the balance provided for within Capital Contingencies.

Community Priorities In order to promote tourism in the area and thereby support the local economy, an investment of £0.224m is to be made to improve the illuminations at Roker and also provide for a new display and workshop area for 6 trams at the newly amalgamated NE Land Sea and Air Museum in Washington. This can be funded from slippage in the capital programme.

Football Investment Strategy

Following a review of Grant approvals received from the Football Foundation and Sports England a review of the Football Investment Strategy has been undertaken resulting in a reduction to the programme of £0.215m

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

- 5.1 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.
- 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 for concern or any issues which require any review of the indicators as originally approved.

Borrowing Strategy for 2013/2014

- 5.3 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

- 5.4 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.

- 5.5 As at 31st August 2013, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.01% 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.
- 5.6 The rate of return on investments however has fallen markedly in recent months 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 also shows that they do not expect to increase the Bank Base Rate until late 2016 at the earliest. 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.
- 5.7 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Members should also note that Deutsche Managed Sterling Fund has been added to the list of approved Money Market Funds that the Council can invest with. Deutsche Bank is one of the world's leading investment organisations and the Deutsche Managed Sterling Fund operated by Deutsche Asset Management (UK) Limited holds the highest available AAA credit rating. Its addition to the Approved Lending List reported to Audit and Governance Committee on 27th September 2013 which will increase the investment options, with highly rated counterparties, available to the Council.

The Council is following advice from its treasury adviser, Sector Treasury Services Ltd (name changed recently to 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.

6. Reasons for Decision

- 6.1 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.

7. Alternative Options

- 7.1 No alternative options are proposed.

8. Impact Analysis

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

9. List of Appendices

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

10. Background Papers

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

Appendix A

Variations to the 2013/2014 Capital Programme to those previously reported

	£000	£000
Reprofiling of Expenditure from 2013/2014 to future years since the First Review & other reports to Cabinet in respect of Capital Projects		
Leader		
Investment Corridors	(517)	
City Deal	(326)	(843)
Cabinet Secretary		
Seafront Strategy	(1,460)	
Port Dock Repairs	(513)	
Roker Pier and Lighthouse	(473)	
Low Water Corrosion / Riverside Repairs	(200)	(2,646)
City Services		
Central & Southern Routes		(599)
Children's Services		
Children's Services Initiatives		(500)
Public Health, Wellness and Culture		
World Heritage Site Public Realm	(1,218)	
Washington Leisure Centre	(1,209)	(2,427)
Other Schemes Reprofiling		(317)
Additional Schemes - Fully Funded		
Public Health, Wellness and Culture		
Hylton Castle Development	165	
Community Priorities	224	389
Variation to Existing Schemes in the Capital Programme - Fully Funded		
Cabinet		
Port Plant and Equipment – funded by reserves		150
Public Health, Wellness and Culture		
Football Investment Strategy		(215)
Other Fully Funded Variations		5
Technical Adjustments		
Highways Maintenance works funded by borrowing	600	
Property Planned Capital Maintenance works funded by borrowing	400	
Reablement Services - spend and funding transferred to Revenue	(629)	
Capital Contingency Schemes – reprofiling to 2014/2015 and transfer to/from Capital Programme schemes	(5,862)	(5,491)
TOTAL VARIATIONS 2013/2014		(12,494)

