

CABINET MEETING –13 JULY 2023
EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Capital Programme First Review 2023/2024 (including Treasury Management)

Author(s):

Director of Finance

Purpose of Report:

This report details:

- the outcome of the First Capital Review for 2023/2024; and
- progress in implementing the Treasury Management Borrowing and Investment Strategy for 2023/2024.

Description of Decision:

Cabinet is recommended to:

- In respect of the first capital review for 2023/2024 to approve the inclusion of additional schemes or variations to existing schemes for 2023/2024 detailed at Appendix A;
- Note the increased cost pressures on the Capital Programme as detailed in paragraph 4.3 of the report; and
- In relation to the Treasury Management Strategy, Cabinet is asked to note the increase in borrowing interest rates, progress in implementing the 2023/2024 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 22nd February 2023.

Cabinet is also requested to note the progress in implementing the Treasury Management Strategy for 2023/2024, 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

CABINET – 13 JULY 2023

CAPITAL PROGRAMME FIRST REVIEW 2023/2024 (INCLUDING TREASURY MANAGEMENT)

Report of the Director of Finance

1. Purpose of Report

1.1 This report details:

- the outcome of the First Capital Review for 2023/2024; and
- progress in implementing the Treasury Management Borrowing and Investment Strategy for 2023/2024.

2. Description of Decision:

2.1 Cabinet is recommended to:

- In respect of the first capital review for 2023/2024 to approve the inclusion of additional schemes or variations to existing schemes for 2023/2024 detailed at Appendix A;
- Note the increased cost pressures on the Capital Programme as detailed in paragraph 4.3 of the report; and
- In relation to the Treasury Management Strategy, Cabinet is asked to note the increase in borrowing interest rates, progress in implementing the 2023/2024 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 2023/2024 capital programme since the 2022/2023 Capital Outturn report to Cabinet on 8th June 2023, 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 2023/2024

4.1 Since the Capital Programme was reported to Council in February 2023, there have been changes to the 2023/2024 Capital Programme both in terms of expenditure and resourcing. In June 2023 the Capital Programme Outturn position for 2022/2023 was reported to Cabinet, which included reprofiling of expenditure from 2022/2023 to 2023/2024 totalling £9.223m and a cost decrease of £6.204m in 2023/2024, resulting in planned investment of £271.420m for the 2023/2024 financial year. During the first quarter of 2023/2024 further reprofiling and other adjustments have been identified increasing the Capital Programme by £2.303m to £273.723m. These are summarised below:

- Reprofiled expenditure of £6.218m from 2023/2024 into future years;
- Additional schemes and scheme variations approved since the Capital Programme update, leading to a net increase of £8.671m in 2023/2024; and
- Technical adjustments, which decrease the Capital Programme in 2023/2024 by £0.150m.

4.2 Appendix A sets out the detail of the above changes to expenditure and resources for 2023/2024.

4.3 Capital Programme delivery has been impacted by the Covid-19 pandemic since March 2020 and the Ukrainian war since Spring 2022. The Capital Programme Reviews reported to Cabinet since March 2020 had 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. Both main contractor and supply chain challenges continue to be experienced. These pressures to the capital programme remain impacting on the cost and timescales of some projects. The impact on the capital programme continues to be closely monitored and will be reported to Cabinet as necessary.

5. Review of the Prudential Indicators and Treasury Management Strategy for 2023/2024

5.1 The Prudential Indicators for 2023/2024 were approved by the Council on 22nd February 2023 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 the 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. 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 – 2023/2024

5.3 The Council's strategy for 2023/2024 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 4.50% for long-term borrowing was set in the Treasury Management Policy and Strategy Statement for 2023/2024, reflecting the views prevalent and interest rates at the time.

5.4 Public Works Loans Board (PWLB) interest rates have risen steadily since the Council last undertook borrowing in August 2022. Delays in capital programme activity have

not necessitated any further borrowing since then but borrowing rates will continue to be closely monitored and consideration given to various options, including utilising some investment balances, to fund the Council's borrowing requirements in 2023/2024 in order to minimise interest charges.

Investment Strategy – 2023/2024

- 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 The Bank of England's Monetary Policy Committee (MPC) announced for a thirteenth consecutive meeting on 21st June 2023 it had raised the Base Rate, with a 0.5% rise taking the rate to 5.00%. Notes from the meeting indicate the peak in rates is close but if there were to be evidence of more persistent price pressures, then further tightening in monetary policy would be required to return inflation to the BoE's target of 2%. The latest base rate increase followed the publishing of the CPI inflation figures for May which were higher than forecast, at 8.7%.
- 5.7 As at 31st May 2023 the Council achieved a rate of return on its investments of 4.37% during 2023/2024, compared with the benchmark rate SONIA (Sterling Overnight Index Average) rate of 4.26%. Interest rates and hence returns remain volatile. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.

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 22nd February 2023.
- 6.2 Cabinet is also requested to note the progress in implementing the Treasury Management Strategy for 2023/2024, 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 2023/2024 Capital Programme.

10. Background Papers

Capital Programme 2023/2024 to 2026/2027 and Treasury Management Policy and Strategy 2023/2024, including Prudential Indicators for 2023/2024 to 2026/2027.

Capital Programme Outturn 2022/2023.

Variations to the 2023/2024 Capital Programme

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Deputy Leader and Clean Green City						
Nobles Quay Replacement	2,600	(1,100)	0	0	1,500	Investigation works for the reconstruction of Nobles Quay commenced April 2023. However, the main works are not expected to start on site until January 2024 and complete in Winter 2025 resulting in a budget of £1.100m to be reprofiled from 2023/2024 to 2024/2025.
Play and Urban Games	605	0	100	0	705	Further play facilities citywide are to be installed, with funding provided through S106 developer contributions as well as a transfer of budget from the Parks and Open Spaces to align funding to works.
Parks and Open Spaces	1,412	0	751	0	2,163	The addition of new programmes and delivery priorities for further investment into parks and opens spaces across the city has resulted in an amended programme of £2.163m in 2023/2024, an increase of £0.751m. Funding to meet the additional investment is primarily from the transfer of funding from the Neighbourhood Capital Investment Programme (NCIP) allocations approved by Area Committees, and the Planned Property Capital Maintenance (PPCM) capital scheme to align funding with delivery of works. NCIP will support works at Thompson, Harraton Play, Princess Anne and Usworth parks, and PPCM will support works at Roker, Penshaw, Usworth and Doxford Parks.

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Trees Planting Programme	0	0	310	0	310	Funding has been secured to plant trees over 11 sites in the City. The total amount of funding is £0.310m available through Trees for Climate, Local Authority Treescape Fund and Trees for Cities.
Other Projects	54,213	0	0	0	54,213	No variations.
Total Deputy Leader and Clean Green City	58,830	(1,100)	1,161	0	58,891	
Cabinet Secretary						
Smart Cities Project	3,387	0	576	0	3,963	On 8th December 2022 Cabinet approved the Sunderland Advanced Mobility Shuttle Project funded by a grant from Innovate UK, being a share of £84m funding as part of the Centre for Connected and Autonomous Vehicles Connected and Automated Mobility Programme. This will be delivered through the Smart Cities project. £0.576m funding was approved for the Council with further funding approved for several partner organisations, however, the partners will receive their funding direct and not via the Council as lead grant applicant. The project will trial three self-driving zero emission shuttles, transporting passengers from Park Lane Interchange, past the main University Campus and to the Sunderland Royal Hospital.
Planned Property Capital Maintenance	2,870	0	1	0	2,871	The schedule of Planned Property Capital Maintenance works continues to be reviewed in line with the Council's needs and priorities. There is £0.299m funding available from the Salix recycling reserve to be utilised to support the delivery of heat pumps and LED lighting at the Council's ICT building at Moorside. In addition, this budget continues to be used to support wider works on other capital projects including £0.298m transferred to the Parks & Open Spaces project as a contribution to various parks works.

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Other Projects	5,985	0	32	0	6,017	No variations.
Total Cabinet Secretary	12,242	0	609	0	12,851	
Children, Learning & Skills						
Thorney Close Primary School New Build	994	(384)	0	0	610	Due to reprioritisation of wider Council projects, construction of the new Thorney Close Primary School is now scheduled to commence in the final quarter of 2023 with an expected completion date of September 2025. This will result in £0.384m budget to be reprofiled from 2023/2024 into future years.
School's Asset Management Unallocated	4,695	0	(1,679)	0	3,016	The Schools' Condition Allocation for 2023/2024 has been confirmed at £1.500m, a decrease of £0.014m to the provision already in the Capital Programme. The unallocated school's asset management grants budget is held for unforeseen winter and other emergencies e.g. heating failure and storm damage, as well for condition works such as roof and boiler replacements and also for contributions to major schools conditions projects. It is proposed to allocate £1.415m to planned school condition works in 2023/2024 (below), as well as £0.250m towards further costs at Hetton Primary and Barnes Junior schools (see below), leaving a current unallocated balance of £3.016m for further emerging priorities.
School Condition Works	461	0	1,415	0	1,876	A total of £1.415m is proposed to be allocated from the unallocated schools capital grants scheme to various school condition works including Albany Village Primary roof replacement and asbestos removal works – see above.

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Hetton Primary School - new build	0	0	180	0	180	The new Hetton Primary School buildings became operational in November 2022. All works are now complete at an additional cost of £0.180m more than previously anticipated. This will be funded from unallocated school capital grants – see above.
Barnes Junior School Refurbishment	522	0	70	0	592	Additional work is required to repair the external structural of the building which is more efficient to be delivered within this scope of works. The £0.070m estimated cost will be funded from unallocated school capital grants – see above.
Lombard Street Family Hub	0	0	246	0	246	<p>The Council is one of just 75 authorities participating in the high-profile Family Hubs initiative sponsored by the Government. Of the five Family Hubs, which are geographically spread across the city, one will be provided in Lombard Street, Sunderland. This property was identified early in the Family Hubs initiative and requires capital works to make it fit for purpose.</p> <p>The costs of the capital works are estimated to be £0.246m and will be funded from, Department for Education Family Hub capital grant funding (£0.104m) and available Council resource (£0.142m).</p>

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Children's Residential Homes	409	0	142	0	551	<p>The investment from the £1.3m approved budget for the creation of new children's residential facilities through the acquisition and / or development of assets is progressing well. Outcomes include:</p> <ul style="list-style-type: none"> • Nook Lodge Children's Home. Following the completion of planned amendments and registration with Ofsted the home opened October 2020 and has since been home to three young people who have been brought back to the local area having been in external accommodation. One young child has successfully returned home to be replaced by another from external accommodation. The operational costs are approximately £0.220m per annum less than the costs of external placement. • Maple Cottage purchase. The home has been amended and is now awaiting Ofsted registration approval. Two young people currently in costly external accommodation will move into the home which will reduce costs by c. £0.200m per annum. • 1 Nookside purchase. From initial inspection it was considered that suitable amendments costs would be nominal. However, following further examination of the building there are additional works required to make the home suitable for the young person, resulting in an increase in these renovation costs. There will though be a full year reduction in costs of c. £0.620m that will be achieved through moving the young person from unregulated external accommodation to this home. • 1 Marlow Drive purchase. Following refurbishment and registration as a children's home this will drive significant benefits to the young person who will initially live in the home. There is an increase to the estimated costs of renovation but will be more than offset through cost avoidance given the young person is currently in unregulated expensive external accommodation. <p>The sum of the additional costs outlined above is estimated to be up to £0.142m. This will be funded through available capital resources.</p>

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Other Projects	8,722	0	0	0	8,722	No variations.
Total Children, Learning & Skills	15,803	(384)	374	0	15,793	
Dynamic City						
Highways Maintenance Programme	4,879	0	787	0	5,666	The Department for Transport confirmed in March 2023 additional Pot Hole funding of £0.734m for the 2023/2024 financial year. In addition, there has been £0.053m Community Chest funding approved by Area Committees for various highways maintenance works.
On street Residential Chargepoint Scheme	17	0	309	0	326	The Office for Zero Emission Vehicles, on behalf of the Department for Transport, had confirmed addition LEVI (Local Electric Vehicle Infrastructure) grant of £0.309m in March 2023. This will deliver a further 49 on street electric vehicle charging facilities in 20 locations in partnership with Connected Kerb who will directly match fund with £0.206m for this infrastructure. This is over and above a further £0.184m LEVI funding that supported installation of wall mounted charge-point sockets at the new Riverside multi-storey car park.
Replacement of Road Safety Vehicle	33	0	33	0	66	A replacement road safety vehicle has recently been purchased. However, due to updated technology that is now available the current aged technology equipment is no longer compatible and there is a need to replace this equipment. The additional cost of £0.033m can be funded from available capital resource.

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Inspiring Futures Programme	6,582	(4,734)	0	0	1,848	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. There have been six one bed properties acquired for homelessness where funding has been received to support the developments under the Rough Sleeping Accommodation Programme from Department for Levelling Up, Homes and Communities (DLUHC). There are two development sites identified but which are within early stages of planning and consultation. Once secured, funding from DLUHC will be requested to support the developments. This has resulting in £4.734m budget to be reprofiled from 2023/2024 into future years.
Other Projects	152,536	0	0	0	152,536	Minor fully funded variances.
Total Dynamic City	164,047	(4,734)	1,129	0	160,442	
Healthy City	9,124	0	0	0	9,124	No variations.
Vibrant City						
Neighbourhood Capital Investment Programme (NCIP)	1,706	0	(402)	0	1,304	Neighbourhood Capital Investment Plan schemes across the 5 geographical areas are determined and approved by Area Committees. Approvals can, and do, include contributions to other schemes in the Council's capital programme, and there is to be a budget transfer of £0.402m to the Parks and Open Spaces capital project to align with works within that project including at Thompson Park, Harraton Play Park, Princess Anne Park and Usworth Park.

Portfolio / Project	Latest Revised Budget 2023/2024 £'000 **	Reprofiling of Expenditure 2023/2024 £'000	Additional Schemes and Cost Variations to Existing Projects 2023/2024 £'000	Technical Adjustments 2023/2024 £'000	Revised Budget 2023/2024 £'000	Comment
Festival of Light	150	0	0	(150)	0	The refresh of the lighting offer for the Festival of Light in 2023/2024 and 2024/2025 will be provided through hiring rather than purchasing lights and equipment. The £0.150m funding provided for this in the Capital Programme, along with £0.150m for next year, will therefore be used to support those revenue costs.
Culture House	7,000	0	5,800	0	12,800	Cabinet had approved on 8 th June 2023 to progress with the next steps for the project including the award of the construction contract and a capital programme variation that also included the audio visual and immersive technologies package of works. The capital programme budget variance has been profiled over 2023/2024 and 2024/2025 to align with project timescales.
Other Projects	2,518	0	0	0	2,518	Minor fully funded variances.
Total Vibrant City	11,374	0	5,398	(150)	16,622	
TOTAL CAPITAL PROGRAMME	271,420	(6,218)	8,671	(150)	273,723	

**** Note – Reconciliation to Original Approved 2023/2024 Capital Programme**

<i>Cabinet 8th June 2023 – Capital Programme Outturn 2022/2023</i>	(3,019)					<i>2022/2023 Outturn: Reprofiling of expenditure between 2022/2023 and 2023/2024, and cost variances in 2023/2024, reported to Cabinet 8th June 2023.</i>
ORIGINAL 2023/2024 CAPITAL PROGRAMME	268,401					Original Capital Programme approved by Full Council 22nd February 2023