

**CABINET MEETING – 22nd June, 2011**  
**EXECUTIVE SUMMARY SHEET- PART I**

**Title of Report:**

Capital Programme Outturn 2010/2011 and First Capital Review 2011/2012  
(including Treasury Management)

**Author:**

Executive Director of Commercial and Corporate Services

**Purpose of Report:**

This report details:

- the Capital Programme Outturn for 2010/2011;
- the outcome of the First Capital Review for 2011/2012 taking account of the Capital Programme Outturn 2010/2011;
- changes made to the Capital Programme 2011/2012 since its approval; and
- provides an update on progress in implementing the Treasury Management Borrowing and Investment Strategy for 2011/2012.

**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 for 2011/2011 detailed at Appendix B, and
- to approve amendments in resourcing the Capital Programme since it was approved by Council in March 2011.

In relation to the Treasury Management Strategy Cabinet is asked

- to note the progress in implementing the 2011/2012 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 respond to variations in the Capital Programme which have arisen since the 2011/2012 Capital Programme was approved to enable effective budgetary control to be exercised.

To note the progress in implementing the Treasury Management Strategy for 2011/2012, 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.

**Is this a “Key Decision” as defined in the Constitution?** Yes - new capital project detailed at Appendix B estimated to cost above £250,000.

**Is it included in the Forward Plan?**  
Yes

**Relevant Scrutiny Committee:**

Management

## **Cabinet – 22nd June 2011**

### **Capital Programme Outturn 2010/2011 and First Capital Review 2011/2012**

#### **Report of the Executive Director of Commercial and Corporate Services**

##### **1. Introduction**

###### **1.1 This report details:**

- the Capital Programme Outturn for 2010/2011;
- the outcome of the First Capital Programme Review for 2011/2012 taking account of the Capital Programme Outturn;
- changes made to the Capital Programme 2011/2012 since its approval
- an update on progress in implementing the Treasury Management Borrowing and Investment Strategy for 2011/2012.

The report format in respect of the first review reflects Portfolio Holder responsibilities for 2011/2012.

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

###### **2.1 Cabinet is recommended to:**

In relation to the Capital Programme, Cabinet is asked to note the positive Capital outturn position for 2010/11 and to approve, and where necessary recommend to Council, the inclusion of additional schemes for 2011/2012 detailed at Appendix B, and approve amendments in resourcing the Capital Programme since it was approved by Council in March 2011.

In relation to the Treasury Management Strategy, Cabinet is asked to note the positive progress made in implementing the strategy for 2011/2012.

##### **3. Capital Outturn 2010/2011**

###### **3.1 The Capital Outturn for 2010/11 reflects positive performance and robust budget management across the programme, with the vast majority of planned activity delivered and expenditure retained within budget.**

###### **3.2 Since the last capital review in January 2011 and additions in respect of schemes approved 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 reduction in spending across all capital schemes of £5.509 million (circa 6%) leading to a final outturn position of £86.845 million in 2010/2011.**

###### **3.3 Scheme variations are detailed at Appendix A and can be categorised as follows:**

- Reprofile of expenditure between 2010/2011 and future years amounting to £7.155 m;
- Additional schemes and scheme variations approved since the Capital Programme was last reported leading to a net reduction of £0.101m;

- Technical adjustments amounting to £1.747m primarily in respect of transfers between capital and revenue programmes and in particular the changes arising from funding vehicles from loan rather than lease following the standard technical value for money appraisal which is carried out before commissioning from loan or lease.

#### **4. Reprofiled Expenditure between 2010/2011 and future years**

- 4.1 The expenditure and resources to be reprofiled between 2010/2011 and future years since the third capital review was reported amount to £7.155 million and are detailed at Appendix A. The primary reasons for this reprofiling relate to the impact of the severe winter on phasing of expenditure and 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 Leader**

##### **Economic Development Support Provision**

A combination of acceleration of grants to support companies during the economic downturn and finalisation of contributions towards the construction of an electricity sub-station on the Nissan site have led to the need to reprofile spending of £1.7 million into 2011/2012.

#### **4.3 Deputy Leader**

##### **Digital Challenge**

A sum of £0.836 million has been reprofiled into 2011/2012 to reflect finalisation of arrangements to support Super Fast Broadband connectivity across the City.

#### **4.4 Children and Learning City**

##### **Schools Devolved Formula Capital (DFC)**

Devolved Formula Capital Grant is subject to a three year approval and grant is devolved to individual schools. Spend in 2010/2011 is lower than previously anticipated as schools are in the process of reviewing their capital priorities in line with significant reductions to this and future years funding. Therefore, expenditure of £0.484 million has been reprofiled from 2010/2011 into 2012/2013.

##### **Upgrade of All Weather Pitches – Biddick and Farringdon Secondary Schools**

Football Foundation funding was confirmed in late 2010 for the above schemes. A combination of poor weather conditions and Football Foundation grant requirements delayed commencement of the schemes with £0.268 million at Biddick and £0.259 million at Farringdon being reprofiled from 2010/2011 to 2011/2012. The Farringdon works were completed in May 2011 and Biddick works are due to be completed in July 2011.

### **Maplewood School Replacement**

It is necessary to reprofile expenditure in respect of the replacement of Maplewood school as a result of delays in the demolition and clearance of the former Quarry View Primary School which is the site of the proposed new school. Building works will commence in June 2011 and a sum of £0.227 million has been reprofiled from 2010/2011 to 2011/2012.

## **4.5 Attractive and Inclusive City**

### **Sunderland Strategic Transport Corridor (New Wear Bridge)**

Cabinet (1<sup>st</sup> December 2010) approved additional expenditure of £1.400 million to progress the project to the Best And Final Offer (BAFO) stage during 2011. The budget profile has been revised to take into account the timing of commitments, including Compulsory Purchase Order's and site investigation works, with expenditure of £0.464 million being reprofiled into 2011/2012.

### **Sunderland Crematorium**

Expenditure of £0.466 million has been reprofiled into 2011/2012 due to planning requirements for CCTV installation, supply delays, severe weather delaying works to the roof, and design modifications to make use of the heat recovered from the mercury abatement plant.

## **5. Additional Schemes and Cost Variations 2010/11**

- 5.1 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 reduction of £0.101 million as set out in Appendix A. The principal additional scheme is set out below:

## **5.2 Attractive and Inclusive City**

### **Low Carbon Buses**

The Council, Nexus and the University of Sunderland are to operate a City Shuttle bus service between the city centre, key attractions and University sites. Nexus have secured funding from the Government's Green Bus Fund of £0.234 million which will meet 50% off the cost of purchasing two low carbon emission buses. The remaining amount of £0.234 million is being met by Council resources. Nexus has procured the vehicles and delivery is expected in September 2011. The vehicles will be owned by the Council but maintained and serviced by the successful bus operator under terms agreed with the Council. The upfront capital investment means that there are no revenue implications for the Council as the University and Nexus are contributing to any ongoing revenue requirements.

## **6. Resources 2011/12**

Department for Communities and Local Government has introduced a new core revenue grant called the "New Homes Bonus" grant which will be paid to local authorities each year from 2011/2012 on the basis of the number of net new homes built. The Council is projected to receive £3.462 million for its 2011/2012 allocation but the entitlement will be spread over a 6 year period with the effect that £0.577 million will be paid over each year from 2011/2012 to 2016/2017. Proposals for schemes to help stimulate new housing development and to help bring empty

properties back in use to facilitate further housing delivery will be reported to Cabinet for consideration in subsequent reviews.

## **7. First Capital Review 2011/2012**

7.1 Since the Capital Programme was reported to Council in March 2011, 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 2011/2012 Capital Programme increasing by £8.473 million from £76.228 million to £84.701 million. This can be analysed as follows:

- Appendix A shows reprofiled expenditure between 2010/2011 and 2011/2012 - this stands at £6.671m and is therefore the primary reason for the increase;
- Additional fully funded schemes and cost variations notified since the Capital Programme was last reported of £1.802m.

Appendix B gives a summary of the changes to expenditure and resources for 2011/2012 with the principal variations set out below:

### **7.2 Cabinet Secretary**

#### **Port of Sunderland**

The Port Board has proposed additional capital investment of £0.616m to support the attraction of new business and to address potential Health and Safety issues. The areas of expenditure include Lighting Improvements, Bridge Repairs, Drainage and Roads Works, improvements to the Port entrance and also the purchase of equipment. The proposals can be funded from a mixture of existing prudential borrowing commitments of £0.144 million, Port reserves of £0.335 million and from ERDF grant of £0.137 million. These proposals have been considered and endorsed by the Port Board as part of the 2011/12 Port Capital budget.

### **7.3 Attractive and Inclusive City**

#### **Pot Hole Repair Grant**

The Council has received a grant of £0.614 million from the DfT towards the cost of damage caused to highways by the severe winter weather. The Highway Capital Maintenance budget has been increased to reflect this additional funding which has been added to the £0.300 million allocated from Council resources as part of the budget proposals for 2011/2012. This will enable priority road resurfacing and pothole repair work to be undertaken during 2011/2012.

#### **Public Transport**

The 2011/2012 programme has been increased to reflect an approved Nexus grant of £0.136 million which will be utilised towards the cost of bus stop improvements.

## 7.4 Health and Well Being

### Sunderland Tennis Centre

The Council has been successful in securing funding of £0.180 million from the Lawn Tennis Association (including a small Directorate contribution) towards the refurbishment of 18 tennis courts at the Sunderland Tennis Centre.

### Football Pavilion Improvements

The programme has been increased by £0.144 million to undertake improvements to football pavilions at Ford Quarry, Silksworth Park, Ryhope Colliery Welfare and Leyburn Grove. Funding of £0.057 million has been approved by Area Committee's, £0.050 million from Section 106 receipts and £0.037 million from City Services revenue budget.

## 8. Review of the Prudential Indicators and Treasury Management Strategy for 2011/2012

8.1 The Prudential Indicators for 2011/2012 were approved by the Council on the 2<sup>nd</sup> March 2011 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 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.

8.2 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 2011/2012

8.3 The Borrowing Strategy is based upon interest rate forecasts from a number of City institutions. The table below shows the anticipated movement in interest rates since the strategy was approved by Council in March 2011.

	Anticipated Bank Base Rate		Anticipated PWLB 5 year Maturity Rate		Anticipated PWLB 10 year Maturity Rate		Anticipated PWLB 50 year Maturity Rate	
	Council March 2011	May 2011	Council March 2011	May 2011	Council March 2011	May 2011	Council March 2011	May 2011
March 2012	1.00%	1.00%	3.60%	3.75%	4.70%	4.80%	5.30%	5.40%
March 2013	2.25%	2.00%	4.30%	4.25%	5.10%	5.05%	5.50%	5.50%
March 2014	3.25%	3.00%	5.00%	4.75%	5.40%	5.25%	5.70%	5.65%

Economists are now predicting an increase in the Bank of England Base Rate in November 2011 (previously this was forecast was for August 2011) and minor variations to previously forecast PWLB rates (particularly over the short term):

- 8.4 No new borrowing has been undertaken in the current financial year. The Council's strategy for 2011/2012 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 2011/2012.

### **Investment Strategy for 2011/2012**

- 8.5 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.
- 8.6 As at 31<sup>st</sup> May 2011, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.52% compared with the benchmark rate (i.e. the 7 day rate) of 0.40%. Performance is therefore very positive and is significantly above the benchmark rate, whilst adhering to the prudent policy agreed by the Council.
- 8.7 The investment policy is monitored to ensure it has flexibility to take full advantage of any changes in market conditions.



## Appendix A

### Reprofiling of Expenditure and Resources between 2010/2011 and future years

	£000	£000
<b>Reprofiling into 2011/2012</b>		
<b>Leader</b>		
Economic Development Grants - acceleration of support during economic downturn	211	
Economic Development Provision – electricity substation	(2,000)	(1,789)
<b>Deputy Leader</b>		
Digital Challenge	(836)	
Call Manager Replacement – to reflect building rationalisation programme requirements	(175)	(1,011)
<b>Children and Learning City</b>		
Biddick and Farringdon Secondary Schools – All Weather Pitches	(527)	
Maplewood School Replacement	(227)	(754)
<b>Prosperous City</b>		
Software City –to reflect planning considerations and weather conditions		(448)
<b>Health and Well Being</b>		
Adult Services IT Schemes – database re-design to incorporate revised business processes		(316)
<b>Attractive and Inclusive City</b>		
Major Highways Schemes - Southern Radial Route and Central Route land acquisitions	(302)	
SSTC – New Wear Bridge	(464)	
Public Transport Schemes – managed delay to reflect review of works grant funded by Nexus following announcements of grant reductions during 2010/2011	(184)	
Ryhope Beach Access – pending ongoing negotiation with Northumbria Water	(157)	
Sunderland Crematorium	(466)	(1,573)
<b>Sustainable Communities</b>		
Centrepont – delay due to negotiations over land transfer		(590)
Other Reprofiling into 2011/2012		(190)
		<b>(6,671)</b>
<b>Reprofiling into 2012/2013</b>		
<b>Children and Learning City</b>		
Schools Devolved Formula Capital		<b>(484)</b>
<b>Total Reprofiling</b>		<b>(7,155)</b>

## Appendix A

### Other 2010/2011 variations from those previously reported

	£000	£000
<b>Additional schemes and Revisions to Scheme Costs 2010/2011 - Fully Funded</b>		
<b>Attractive and Inclusive City</b>		
Low Carbon Buses		234
Campus Reprovision reduced requirement		(102)
Other Fully Funded Additional Schemes and Variations		(233)
<b>Total Additional / Amended Schemes</b>		<b>(101)</b>
<b><u>Technical Adjustments 2010/2011</u></b>		
<b>Deputy Leader</b>		
Business Improvement Programme – expenditure and funding transferred to revenue		(512)
<b>Prosperous City</b>		
City Centre Improvements – expenditure and funding transferred to revenue		(100)
<b>Attractive and Inclusive City</b>		
Vehicles Funded from Loan following Option Appraisal		2,242
<b>Software Licenses</b>		
Funded from Directorate Resources– expenditure transferred from revenue		117
<b>Total Technical Adjustments</b>		<b>1,747</b>
<b>TOTAL VARIATIONS 2010/2011</b>		<b>(5,509)</b>

## Appendix B

### Variations from those reported in the Original 2011/2012 Programme

	£000	£000
<b>Reprofiling of Expenditure between 2010/2011 and 2011/2012</b>		<b>6,671</b>
<b>Additional Schemes - Fully Funded</b>		
<b>Cabinet Secretary</b>		
Port Drainage Works - funded from prudential borrowing	85	
Port Lime Works – funded from prudential borrowing	40	
Port Road Realignment – funded from prudential borrowing	19	
Port Entrance Imps – funded from ERDF grant	137	
Port Health and Safety Works – Lighting Improvements – funded from Port Reserves	130	
Port Health and Safety Works – Equipment - funded from Port Reserves	155	
Port Equipment - funded from Port Reserves	50	616
<b>Attractive and Inclusive City</b>		
Pot Hole Repairs - funded from DFT grant	614	
Public Transport Schemes - funded from Nexus	136	750
<b>Health and Well Being</b>		
Refurbishment of Tennis Centre Courts - funded from LTA grant and directorate contributions	180	
Football Pavilion Improvements - funded from Section 106 receipts, Strategic Initiatives Budget and directorate contributions	144	324
Other Additional Schemes and Variations (£100,000 of which relate to schools schemes)		112
<b>TOTAL VARIATIONS 2011/2012</b>		<b>8,473</b>

