

## CABINET MEETING – 10TH OCTOBER 2012

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Second Capital Review 2012/2013 (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 2012/2013 was approved in July 2012;
- the inclusion of additional schemes and revisions to costs and resourcing for 2012/2013 since the First Capital Review was reported;
- the progress in implementing the Treasury Management Strategy for 2012/2013.

**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 2012/2013 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 2012/2013 and to endorse the delegated decision amending the Council's Lending List Criteria set out in Appendix B.

**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 2012/2013 was approved to enable effective budgetary control to be exercised.

To note the progress in implementing the Treasury Management Strategy for 2012/2013, 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**

☒

**Is this a “Key Decision” as defined in the Constitution?**

Yes - new capital project detailed at Appendix A estimated to cost above £250,000. check if constitution changes limits to 500K

**Is it included in the 28 day Notice of Decisions?** No

**Scrutiny Committee**

## **Cabinet – 10th October 2012**

### **Second Capital Review 2012/2013 (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 2012/2013 was approved in July 2012;
- the inclusion of additional schemes and revisions to costs and resourcing for 2012/2013 since the First Capital Review was reported;
- the progress in implementing the Treasury Management Strategy for 2012/2013.

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

##### **2.1 Cabinet is recommended that:**

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 2012/2013 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 2012/2013 and to endorse the delegated decision amending the Council's Lending List Criteria set out in Appendix B.

#### **3. Introduction**

3.1 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 2012/2013 capital programme since the first review reported to Cabinet on 18<sup>th</sup> July 2012 are shown in section 4 of this report. Those increases that exceed £250,000 will require Council approval in due course.

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. Second Capital Review 2012/2013**

4.1 Since the Capital Programme was reported to Council in March 2012, 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 2012/2013

Capital Programme decreasing by £7.581m from £90.324m to £82.743m. This can be analysed as follows:

- Reprofiled expenditure of £7.894m between 2012/2013 and 2013/2014. 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 reducing the capital programme by £0.404m;
- Technical Adjustments of £0.717m.

Appendix A gives a summary of the changes to expenditure and resources for 2012/2013 with the principal variations set out below:

## **4.2 Reprofiling of Expenditure between 2011/2012 and future years**

Schemes where significant reprofiling of expenditure and resources are being proposed are set out below.

### **4.2.1 Leader**

#### **Washington Managed Workspace**

Approval of funding from the European Regional Development Fund was later than anticipated with the detailed design stage of the project being extended to comply with grant conditions and ensure best value for the project. The planning application for this project will therefore be submitted later than planned. This will impact on the project spend profile by pushing back the construction start date and it is estimated that £2.739m of the £3.900m capital spend planned in 2012/2013 will now take place in 2013/2014.

### **4.2.2 Cabinet Secretary**

#### **Property Planned Capital Maintenance**

A sum of £1.000m per year has been allocated from 2012/2013 to 2014/2015 to help prevent degradation of the Council's property portfolio. Necessary work is being prioritised to ensure that it meets the future needs of the Council in line with smarter working building requirements and at this stage it is estimated that £0.600m spend will need to take place in 2013/2014.

### **4.2.3 Children's Services**

#### **Schools Asset Management Priorities**

The Council is reviewing capital works needed to all schools to ensure it receives best value from its resources. This follows the successful bid to have 5 schools replaced as part of the Governments Priority Schools Building Programme (PSBP), potential changes to the way schools will be administered and funded and also to future pupil projections indicating further major works in providing new pupil places in particular areas of the city will be required.

Initial projections indicate that £4.505m expenditure from funding received in 2012/2013 will require reprofiling into 2013/2014. This includes projects that will prioritise capital works in those areas with high demand for places, planned capital maintenance that will take place during school holidays in 2013 to minimise disruption to pupils, and a reprofiling of resources included in the capital programme to meet unforeseen emergency capital maintenance needs that may arise. The Education Funding Agency have confirmed funding allocated to these projects successful in the PSBP bid does not allow for new loose furniture and equipment, including IT equipment. As the first schools are not expected to be completed until 2014 funding by the Council for these works has also been transferred into 2013/2014.

#### **4.3 Additional Schemes and Cost Variations 2012/2013**

##### **4.3.1 Children's Services**

###### **Maplewood School**

It is anticipated that the replacement of Maplewood school will cost £5.330m. This represents a reduction of £0.470m to the scheme budget. This has been achieved by a combination of savings on provisional sums included in the tender, design changes and unspent contingency sums. The savings will be reallocated and used to fund other capital priorities within schools.

##### **4.3.2 Health Housing and Adults**

###### **Extra Care Schemes**

It is recommended that works totalling £0.303m that has not yet been allocated towards specific extra care reablement opportunities is removed from the capital programme and that funding from revenue sources within the Health, Housing and Adults capital programme be used as a one off opportunity in 2012/2013 to meet spending pressures within the revenue budget.

##### **4.3.3 City Services**

###### **Hendon Burn Culvert Access Safety**

The Environment Agency has approved funding of £0.325m through its Flood and Coastal Erosion Risk Management capital budget to provide additional safe access to Hendon Burn Culvert. The culvert is approximately 150 years old with the existing access being substandard. The proposed works comprise the construction of two access shafts, one for maintenance personnel and the other for maintenance equipment.

#### **5. Review of the Prudential Indicators and Treasury Management Strategy for 2012/2013**

5.1 The Prudential Indicators for 2012/2013 were approved by the Council on the 7th March 2012 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 the agreed Council Treasury Management Policy and Strategy;
- 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 2012/2013**

5.3 The Borrowing Strategy is based upon the Council's anticipated borrowing requirement and prospects for interest rates. No new borrowing has been undertaken in the current financial year. The Council's strategy for 2012/2013 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 2012/2013.

### **Investment Strategy for 2012/2013**

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 2012, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.95% compared with the benchmark rate (i.e. the 7 day rate) of 0.43%. Performance is therefore very positive and is significantly above the benchmark rate, whilst adhering to the prudent policy agreed by the Council.

- 5.6 In light of continued volatility in financial markets and to accommodate investments made by the Council on behalf of the North Eastern Local Enterprise Partnership a delegated decision was made on 3<sup>rd</sup> July 2012 to amend the Lending List Criteria. Increasing the amounts approved to be invested within the UK, with AAA institutions and with Money Market Funds which are also AAA rated. This will help reduce counterparty risk by enabling the Council to increase its investments with those institutions in which the UK Government holds a financial stake (i.e. Lloyds TSB and Royal Bank of Scotland) and would be very unlikely to be allowed to fail should the financial situation substantially deteriorate and it will also will help spread risk by increasing investments with Money Market Funds. The delegated decision is set out at Appendix B.

The Council is following advice from its treasury adviser 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 2012/2013 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 2012/2013.

## **7. Alternative Options**

- 7.1 No alternative options are proposed.

## **8. List of Appendices**

Appendix A - Other variations to the 2012/2013 capital programme to those previously reported

Appendix B – Record of decision made under delegated powers

## **9. Background Papers**

Sunderland City Council Capital Programme 2011/12 to 2015/16  
First Capital Review 2012/2013

## Appendix A

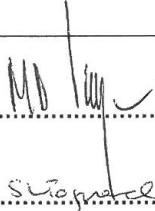

### Variations to the 2012/2013 Capital Programme to those previously reported

	£000	£000
<b>Reprofiling of Expenditure from 2012/2013 to future years since the First Review</b>		
<b>Leader</b>		
Washington Managed Workspace		(2,739)
<b>Cabinet Secretary</b>		
Property Planned Capital Maintenance		(600)
<b>Children's Services</b>		
School Asset Management Priorities	(4,505)	
Short Breaks for Disabled Children	(50)	(4,555)
<b>Additional Schemes - Fully Funded</b>		
<b>City Services</b>		
Hendon Burn Culvert Safety Access – Environment Agency grant funded	325	
South Bents and Seaburn Sea Walls Protection Strategy Study – Environment Agency grant approval for initial works and study prior to larger capital scheme bid	20	
Port Area Sea Defences Strategy Study – Environment Agency grant approval for initial works and study prior to larger capital scheme bid	50	395
<b>Variation to Existing Schemes in the Capital Programme - Fully Funded</b>		
<b>Children's Services</b>		
Maplewood School		(470)
<b>Health Housing and Adult Services</b>		
Extra Care Schemes		(303)
Other Fully Funded Variations		(26)
<b>Technical Adjustments</b>		
Tractors and Mowers purchased by borrowing instead of planned leasing following option appraisal	312	
Library Assets purchased by borrowing to be repaid on an invest to save basis	230	
Waste Containers and Bins purchased by borrowing to be repaid on an invest to save basis	175	717
<b>TOTAL VARIATIONS 2012/2013</b>		<b>(7,581)</b>



## Appendix B

RECORD OF DECISION MADE UNDER DELEGATED POWERS	
<b>Department:</b>	Directorate of Commercial and Corporate Services - Financial Resources
<b>Officer making Decision:</b>	Executive Director of Commercial and Corporate Services
<b>Date of decision:</b>	03/07/2012
<p><b>Nature of decision made:</b></p> <p>The variations set out below are recommended to be made to the Council's Lending List Criteria which is permitted in accordance with the Council's Treasury Management Strategy Statement for 2012/2013 which was approved on 7<sup>th</sup> March 2012 where it provides that "delegated authority continues for the Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for resources now the Cabinet Secretary, to vary the Lending List Criteria and the Lending List should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively". The changes are:</p> <ul style="list-style-type: none"> <li>- to increase the country limit for investments within the United Kingdom from £300m to £350m</li> <li>- to increase the limit that can be invested with particular sectors which include: <ul style="list-style-type: none"> <li>Central Government from £300m to £350m</li> <li>Local Government from £300m to £350m</li> <li>UK Banks from £300m to £350m</li> <li>Money Market Funds from £50m to £80m</li> </ul> </li> <li>- to increase the maximum deposit that can be placed with individual institutions as set out below: <ul style="list-style-type: none"> <li>Institutions that are AAA rated from £70m to £90m; and</li> <li>Money Market Funds from £50m to £80m with the amount invested in any one fund increasing from £30m to £40m.</li> </ul> </li> </ul>	
<p><b>Reason for decision:</b></p> <p>Sunderland City Council acts as the accountable body for the North Eastern Local Enterprise Partnership and makes treasury management decisions and investments on behalf of that body.</p> <p>The Council currently holds all of the government funds allocated to the North Eastern LEP who have in addition made a bid to government for substantial additional funding of around £45m. The funds held by the Council on behalf of the NELEP means that the Council could potentially exceed its limits on funds invested as set out in the approved Treasury Management Strategy Statement for 2012/2013 approved on 7<sup>th</sup> March 2012. The monies held on behalf of other organisations does not usually have any significant impact on the placing of funds however the level of funds held on behalf of the NELEP currently means that it is reducing the flexibility of the Council to place funds to gain optimum returns on the Council's investments.</p> <p>In light of this position and taking into account the continued volatility in financial markets it is recommended that the Lending List Criteria is amended to increase amounts approved to be invested within the UK, with AAA institutions and with Money Market Funds which are also AAA rated. This will help reduce counterparty risk by enabling the Council to increase its investments with those institutions in which the UK Government holds a financial stake (i.e. Lloyds TSB and RBS) and would be very unlikely to be allowed to fail should the financial situation substantially deteriorate and will also help spread risk by increasing investments with Money Market Funds.</p>	

<b>Members/Officers consulted (attach their views as appropriate)</b>	Cllr Speding
<b>File/background papers used:</b>	Treasury Management Strategy Statement and Lending List Criteria
<b>Is this a confidential matter as referred to in paragraph 7 of the Guidance?</b>	No
<b>Paragraph of Delegation Scheme relied upon:</b>	Council approved on 7 <sup>th</sup> March 2012 that "delegated authority continues for the Executive Deirector of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for resources (Cabinet Secretary), to vary the Lending List Criteria and the Lending List should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively".
<b>Signature:</b> .....  ..... <b>Date: 3rd July 2012</b>	
<b>Counter Signature:</b> .....  ..... <b>Date: 3rd July 2012</b>	