

CABINET MEETING – 19 JUNE 2013

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Capital Programme Outturn 2012/2013 and First Capital Review 2013/2014 (including Treasury Management)

Author(s):

Executive Director of Commercial and Corporate Services

Purpose of Report:

This report details:

- the Provisional Capital Programme Outturn for 2012/2013;
- the outcome of the First Capital Review for 2013/2014 taking account of the Provisional Capital Programme Outturn 2012/2013;
- changes made to the Capital Programme 2013/2014 since its approval and progress in implementing the Treasury Management Borrowing and Investment Strategy for 2013/2014.

Description of Decision:

In relation to the Capital Programme Cabinet is asked

In respect of outturn for 2012/2013 to :

- approve, and where necessary recommend to Council, the inclusion of additional expenditure for 2012/2013 as included at Appendix A and
- note the overall Provisional Capital outturn position for 2012/2013 and authorise the Executive Director of Commercial and Corporate Services to finalise any outstanding capital financing issues in consultation with the Leader and Cabinet Secretary

In respect of the first capital review for 2013/2014

- approve amendments in resourcing the Capital Programme since it was approved by Council in March 2013, and
- approve and where necessary recommend to Council, the inclusion of additional expenditure for 2013/2014 detailed at and B, and
- approve a contract variation in excess of £250,000 for the Customer Service Network Platform.

In relation to the Treasury Management Strategy Cabinet is asked

- to note the positive progress in implementing the 2013/2014 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 report on the outturn position compared to the budget for 2012/2013.

To respond to variations in the Capital Programme which have arisen since the 2013/2014 Capital Programme was approved to enable effective budgetary control to be exercised.

To note the progress in implementing the Treasury Management Strategy for 2013/2014, 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 this a “Key Decision” as defined in the Constitution?

Yes - capital spending detailed at Appendix B estimated to cost above £250,000.

Is it included in the 28 Day Notice of Decisions?

Yes provisionally - in light of content of this report it is necessary.

Scrutiny Committee

Cabinet – 19th June 2013

Capital Programme Outturn 2012/2013 and First Capital Review 2013/2014

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.1 This report details:

- the Provisional Capital Programme Outturn for 2012/2013;
- the outcome of the First Capital Programme Review for 2013/2014 taking account of the Capital Programme Outturn;
- changes made to the Capital Programme 2013/2014 since its approval;
- an update on the outturn position for 2012/2013 and progress in implementing the Treasury Management Borrowing and Investment Strategy for 2013/2014.

2. Description of Decision:

2.1 Cabinet is recommended to:

In relation to the Capital Programme Cabinet is asked

In respect of outturn for 2012/2013 to :

- approve, and where necessary recommend to Council, the inclusion of additional expenditure for 2012/2013 as included at Appendix A and
- note the overall Provisional Capital outturn position for 2012/2013 and authorise the Executive Director of Commercial and Corporate Services to finalise any outstanding capital financing issues in consultation with the Leader and Cabinet Secretary

In respect of the first capital review for 2013/2014

- approve amendments in resourcing the Capital Programme since it was approved by Council in March 2013, and
- approve and where necessary recommend to Council, the inclusion of additional expenditure for 2013/2014 detailed at and B, and
- approve a contract variation in excess of £250,000 for the Customer Service Network Platform.

In relation to the Treasury Management Strategy Cabinet is asked

- to note the positive progress in implementing the 2013/2014 Treasury Management Strategy and Prudential Indicators.

3. Introduction

- 3.1 The capital programme outturn position for 2012/2013 is shown in Section 4. This reflects positive performance and robust budget management across the programme, with the majority of planned expenditure retained within budget.
- 3.2 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 2013/2014 capital programme approved by Council on 6th March 2013 are shown in section 5.

- 3.3 Performance in implementing the Treasury Management Strategy continues to be positive and is detailed in Section 6 along with confirmation that the Council is operating within its agreed borrowing limits.

4.1 Provisional Capital Outturn 2012/2013

- 4.1.1 Since the last capital review in January 2013 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 increase in spending across all capital schemes of £3.273m since the Third Review leading to a final outturn position of £53.807m in 2012/2013.
- 4.1.2 Scheme variations are detailed at Appendix A, after technical adjustments relating to schemes previously approved by Cabinet, and can be categorised as follows:
- Reprofile of expenditure between 2012/2013 and future years amounting to £15.439m
 - Additional schemes and scheme variations approved since the Capital Programme was last reported leading to a net decrease of £0.107m
 - A further technical adjustment to increase the Capital Programme by £18.819m
- 4.1.3 The final outturn reflects technical adjustments relating to previously approved policies and the anticipated requirement to reclassify the airport refinancing transaction through revenue rather than capital expenditure in accordance with technical advice received and previous approvals.
- 4.1.4 A further technical adjustment since the Capital Programme was last reported is proposed to reflect the successful application to DCLG for a Capitalisation Direction (received on 3rd June 2013) that gives consent for the Council to treat certain Equal Pay liabilities up to £18.819m as capital expenditure in 2012/2013.
- 4.1.5 Both of these issues are in the process of being finalised as part of producing the Annual Accounts by the end of June and therefore in this context, Cabinet is requested to authorise the Executive Director of Commercial and Corporate Services to finalise any outstanding capital financing issues in consultation with the Leader and Cabinet Secretary.

4.2 Reprofiled Expenditure between 2012/2013 and future years

- 4.2.1 The expenditure and resources to be reprofiled between 2012/2013 and future years since the third capital review was reported amount to £15.439m and are detailed at Appendix A. The primary reasons for this reprofiling relate to external influences outside of the Council's control.

The schemes where there has been significant reprofiling of expenditure and resources are set out below.

4.2.2 Leader

Washington Managed Workspace

The completion date for land purchase was delayed until May 2013 following further negotiations that were required with the main contractor on the development agreement. As a result £0.971m was reprofiled into 2013/2014.

4.2.3 Cabinet Secretary

Port Mobile Crane Purchase

The Port mobile crane is expected to be delivered by August 2013 requiring £3.000m to be reprofiled into 2013/2014.

Old Townscape Heritage Initiative

Upon commencement of the preliminary works by the main contractor at the Old Orphanage building, additional utilities were discovered delaying the progression of the scheme with £0.497m required to be reprofiled into 2013/2014. The completion of this scheme is now expected to be January 2014 rather than the original estimate of October 2013.

4.2.4 Children's Services

School Asset Management Priorities

Continuing negotiations between schools and other relevant parties regarding the scope of works required has delayed work at Hylton Redhouse Primary and Barbara Priestman Special schools. As a result, £0.555m expenditure has been reprofiled from 2012/2013 into 2013/2014.

4.2.5 Health, Housing and Adults

Area Renewal – Hetton Downs

The timing of expenditure on area renewal is difficult to forecast and is dependent on legal agreement being reached with property owners in the area. Estimated expenditure of £1.965m has been reprofiled into 2014/2015, of which £1.527m is reprofiled from 2012/2013 and £0.438m from 2013/2014. This is in respect of Area Renewal Programmes remaining property acquisitions in Maudlin Street, the purchase of the former dairy, Springboard building and Gentoo site on Eppleton Estate.

Empty Property Action Plan

This project provides funding to refurbish empty properties and bring them back into use. At this stage conditions around agreement to loan conditions and equity values associated with targeted homes has led to the need to rephrase £0.536m estimated spend into 2013/2014.

Cluster of Empty Homes

This project, jointly funded by the Council and the Homes and Communities Agency, aims to refurbish empty properties and return them to use by March 2014 in four areas where there is a significant number of empty properties. However, lower than anticipated interest from property owners requires £0.271m to be reprofiled into 2013/2014.

4.2.6 Public Health, Wellness and Culture

World Heritage Site Public Realm

Work has continued to develop detailed designs for environmental improvements to the grounds of St Peter's church, including interpretation of the monastic footprint. In the meantime the planned improvements will continue to enhance the setting of the grade one listed building and scheduled ancient monument. As a result £0.858m is required to be reprofiled into 2013/2014.

Washington Leisure Centre

Adverse weather has led to the need to reprofile £0.256m of enabling works into 2013/2014

4.2.7 City Services

Sunderland Strategic Transport Corridor (New Wear Bridge)

Expenditure of £2.893m primarily in relation to land acquisition and associated costs has been reprofiled into 2013/2014 as a result of statutory legal processes relating to Compulsory Purchase Orders and Side Roads Orders taking longer than anticipated.

Major Highways Schemes - Southern and Central Radial Routes

Expenditure of £0.546m has been reprofiled into 2013/2014 in respect of the remaining land acquisition costs arising from compulsory purchase orders. The timing of expenditure is dependent on the outcome of discussions with landowners.

Transport Schemes

Various integrated transport schemes within the city totalling £0.496m have been reprofiled into 2013/2014 following the results of extensive public consultation which has increased the complexity and delayed the implementation of some of these schemes.

Bridge Maintenance

Options on Pallion New Road Bridge require further consideration of longer term maintenance costs and land ownership issues and £0.426m has been reprofiled into 2013/2014.

Borough Road (Better Bus Fund)

During the development of this scheme to improve Borough Road, key utility improvements were identified. To avoid further disruption to road users, arrangements were made for these works to be carried out in conjunction with the original plans with £0.284m reprofiled into 2013/2014.

4.3 Additional Schemes and Cost Variations 2012/2013

- 4.3.1 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 decrease of £0.107m. Appendix A gives a summary of these changes for 2012/2013 with the main variation set out below:

4.4 Health, Housing and Adults

4.4.1 DECC Fuel Poverty Fund

Following a successful bid, the Department of Energy and Climate Change announced in January 2013 new funding to address fuel poverty by delivering thermal efficiency improvements in hard to reach properties in Southwick, Millfield and Hendon. This funding was to be spent in 2012/2013, and the amount allocated to Sunderland was £0.505m, with £0.015m of this to be spent on revenue items and £0.490m on capital.

5. First Capital Review 2013/2014

5.1.1 Since the Capital Programme was reported to Council in March 2013, 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 2013/2014 Capital Programme increasing by £14.486m to £128.081m. This is analysed as follows:

- An increase due to reprofiled expenditure between 2012/2013 and 2013/2014 after technical adjustments - this stands at £13.842m and is therefore the primary reason for the increase;
- A reduction due to reprofiled expenditure of £3.142m between 2013/2014 and 2014/2015;
- An increase as a result of additional fully funded schemes and cost variations notified since the Capital Programme was last reported of £3.786m.

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

5.2 Additional Schemes and Cost Variations 2013/2014

5.2.1 Leader

Crowtree Redevelopment

Prior to demolishing the Crowtree Leisure Centre a survey was undertaken to establish potential costs of demolition. Required works not originally planned for, such as DDA compliance for the walkway, and other costs have led to an increase of £1.118m in 2013/2014 compared to that programmed. This cost can be fully funded from prudential borrowing and slippage elsewhere in the Capital Programme. All works are scheduled for completion by March 2014.

5.2.2 Cabinet Secretary

Seafront Strategy

An award of £2.000m in February 2013 from the BIG Coastal Communities Fund will enhance and accelerate works identified within the Seafront Regeneration Strategy. Additionally final tenders for phase 2 of the Seafront Strategy were £0.325m higher than anticipated. An examination of the capital programme has enabled these costs to be fully funded from underspendings on the former Vaux Site Advanced Works.

5.2.3 Children's Services

School Capital Allocations

The DfE announced in March 2013 Capital allocations for schools for 2013/2014 and 2014/2015. Excluding non-VA schools these were as per the table below, with comparisons to the 2012/2013 allocations:

Funding Strand	2012/2013	2013/2014	2014/2015
Capital Maintenance	3,176,695	2,540,848	Not yet announced
Basic Need	1,635,031	805,365	805,365
Local Authority Devolved Formula Capital (DFC)	726,107	597,334	Not yet announced
TOTAL	5,537,833	3,943,547	805,365

Following a review of asset management requirements in schools, all of the above funding has been profiled for use against future financial years. Additionally, £2.374m of Capital Maintenance and Basic Need funding currently in the Capital Programme for School Asset Management Programmes has been reprofiled for use in 2014/2015.

5.2.4 Responsive Services and Customer Care

Customer Service Network Platform

Investment in the Customer Service Network Platform of £0.465m in 2013/2014, has been provided to deliver improved and more efficient services. The developments include enhanced telephony functionality that will consist of an automated switchboard, enhanced voicemail linked to safeguarding and voice recording, whilst ensuring full compliance with statutory requirements, combined with greater accessibility via the web and delivery of mobile working. This can be fully funded from reserves set aside for this purpose.

To support the above investment, approval is sought to agree a variation of £112,000 to the existing Service Delivery Management System contract for additional development resources at an agreed fixed daily rate with the contractor Optevia Limited. The previous cumulative value of contract variations agreed to date under delegated powers is £249,999 to supplement the original contract value of £723,982.

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

6.1 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;
- 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.

- 6.2 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

- 6.3 The Council's strategy for 2012/2013 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Council. No new PWLB borrowing or debt rescheduling was undertaken as rates were not considered to be sufficiently favourable. However the Council has been successful in 2012/2013 in securing £1.360 million from the LEP Growing Places Fund at 0% interest to part finance specific capital schemes. Further borrowing at preferential interest rates from the LEP is anticipated in 2013/2014.
- 6.4 The Council's strategy for 2013/2014 is to continue with its pragmatic and flexible approach 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 2012/2013. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing or debt rescheduling has been undertaken in the current financial year to 31st May 2013. Consideration will be given to various options, including utilising some investment balances to fund the Council's borrowing requirement in 2013/2014.

Investment Strategy – 2012/2013 and Current Position

- 6.5 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.
- 6.6 On 22nd February 2013 the credit rating agency Moody's downgraded the UK's sovereign rating by one notch from Aaa to Aa1 with Fitch taking a similar line on 19th April 2013. This downgrading was broadly expected, which is highlighted by the minimal reaction shown by the financial markets to the news and little impact on money market yields. Both ratings agencies have the UK Government on a stable outlook, which means that no further movement in the rating is anticipated over the next 12-18 months and reflects the expectation that political will and medium-term fundamental economic strengths will, in time, allow the Government to implement its fiscal consolidation plan.
- 6.7 Investment limits that Sunderland City Council holds with UK financial institutions were reliant on the UK sovereign rating remaining at AAA. Whilst this rating has reduced to a AA+ level it is felt that investments made with UK financial institutions remain low risk and the Executive Director of Commercial and Corporate Services signed a delegated decision on 12th March 2013 that maintains investment limits with individual institutions at pre downgrade levels. Moody's themselves stated they did not

anticipate the one notch downgrade to impact on UK entities that it rates, so we do not expect to see UK financial institutions subject to individual downgrades as a result.

- 6.8 During 2012/2013 the Council did not employ any external fund managers with all investments managed by the in-house team, achieving a rate of return on its investments of 1.91% compared with the 7 day London Interbank Bid (LIBID) rate of 0.39% which the Council uses as a benchmark for its investments. This performance is significantly above the benchmark rate and in the top quartile when compared to other local authorities, whilst adhering to the prudent policy agreed by the Council
- 6.9 As at 31st May 2013, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.07% compared with the 7 day LIBID rate of 0.36%. This reduction in performance compared to 2012/2013 reflects a significant reduction in investment rates available from counterparties included on the Council's lending list but it is still considerably higher than the comparable benchmark rate.
- 6.10 In 2013/2014, with short-term investment rates forecast to be materially below long-term borrowing rates, it is possible that some investment balances may temporarily be used to fund some long-term borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed if and when the appropriate conditions arise

7. Reasons for Decision

- 7.1 To report on the outturn position compared to the budget for 2012/2013, respond to variations in expenditure and income which have arisen in 2013/2014 and to update Cabinet on the progress in implementing the Treasury Management Borrowing and Investment Strategy for 2013/2014.

8. Alternative Options

- 8.1 No alternative options are proposed.

9. Impact Analysis

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

10. List of Appendices

Appendix A - Reprofile of Expenditure and Resources between 2012/2013 and future years and other capital scheme variations to those previously reported.

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

11. Background Papers

Sunderland City Council Capital Programme 2012/13 to 2016/17.
Third Capital Review 2012/2013.

Appendix A

Reprofiling of Expenditure and Resources between 2012/2013 and future years

	£000	£000
Reprofiling into 2013/2014		
Leader		
Washington Managed Workspace	(971)	
Strategic Land Acquisitions – additional land acquisitions approved by Cabinet 16 th January 2013, offset by delay to purchase of RAN building completed May 2013.	(225)	
St Mary's Boulevard & Magistrates Square – reprofiling of utility works	(198)	
Other Schemes	(30)	(1,424)
Deputy Leader		
Other Schemes	(143)	(143)
Cabinet Secretary		
Port Mobile Crane Purchase	(3,000)	
Old Townscape Heritage Initiative	(497)	
Economic Development Provision – spend dependent on compliance with grant conditions	(222)	
Other Schemes	33	(3,686)
Children's Services		
School Asset Management Programmes	(555)	
Other Schemes	(153)	(708)
Health, Housing and Adults		
Empty Property Action Plan	(536)	
Cluster of Empty Homes	(271)	
Other Schemes	(574)	(1,381)
Public Health, Wellness and Culture		
World Heritage Site Public Realm	(858)	
Washington Leisure Centre	(256)	
Other Schemes	(116)	(1,230)
City Services		
Sunderland Strategic Transport Corridor	(2,893)	
Major Highways Schemes – Southern & Central Radial Routes	(546)	
Transport Schemes	(496)	
Bridge Maintenance	(426)	
Borough Road (Better Bus Fund)	(284)	
Hendon Burn Culvert Safety Works - delays in receiving critical public utility information	(158)	
Cycle Routes–review of sections of proposed cycle routes whilst options for additional funding are considered	(143)	
Other Schemes	(318)	(5,264)
Responsive Services and Customer Care		
Other Schemes	(6)	(6)
		(13,842)
Reprofiling into 2014/2015		
Health, Housing and Adults - Area Renewal – Hetton Downs	(1,527)	
Deputy Leader – Digital Challenge	(70)	(1,597)
Total Reprofiling into 2013/2014 and 2014/2015		(15,439)

Appendix A

Other 2012/2013 variations from those previously reported

	£000	£000
Additional Schemes and Revisions to Scheme Costs 2012/2013 - Fully Funded		
Health, Housing and Adults		
DECC Fuel Poverty Fund – fully funded by DECC grant		490
Leader		
Former Vaux Site Advanced Works – saving following review of overall redevelopment works in area		(385)
Other Fully Funded Additional Schemes and Variations		(212)
Total Additional / Amended Schemes		(107)
Further Technical Adjustment		
Application of equal pay capitalisation direction received on 3 rd June 2013		18,819
TOTAL VARIATIONS 2012/2013*		3.273
* In addition other technical Adjustments in 2012/2013 relating to financing arrangements in respect schemes previously approved by Cabinet have been undertaken since the third review amounting to £17.243m		

Appendix B

Variations from those reported in the Original 2013/2014 Programme

	£000	£000
Reprofiling of Expenditure between 2012/2013 and 2013/2014 (excluding technical adjustments of £2.682m)		13,842
Additional Schemes and Variations to Existing Schemes - Fully Funded		
Reprofiling of Expenditure between 2013/2014 and 2014/2015		
Health, Housing and Adults - Area Renewal – Hetton Downs	(438)	
Deputy Leader – Digital Challenge	(330)	
Children's Services – School Asset Management Programmes	(2,374)	(3,142)
Leader		
Crowtree Redevelopment	1,118	
Former Vaux Site Advanced Works - saving following review of overall redevelopment works in area	(149)	969
Cabinet Secretary		
Seafront Strategy – fully funded from BIG Communities Grant and Reserves	2,325	2,325
Responsive Services and Customer Care		
Customer Service Network Platform – fully funded from Reserves	465	465
Other Fully Funded Additional Schemes and Variations		27
TOTAL VARIATIONS 2013/2014		14,486

