

**CABINET MEETING – 18 JULY 2012**

**EXECUTIVE SUMMARY SHEET – PART I**

**Title of Report:**

First Capital Review 2012/2013 (including Treasury Management)

**Author(s):**

Executive Director of Commercial and Corporate Services

**Purpose of Report:**

This report details proposed changes made to the Capital Programme 2012/2013 since its approval and provides an update on progress in implementing the Treasury Management Borrowing and Investment 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 and 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 Cabinet is asked to note the positive progress in implementing the 2012/2013 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 proposed variations in expenditure and funding which have arisen since the 2012/2013 Capital Programme was approved to enable effective budgetary control to be exercised.

To note the progress in implementing the Treasury Management Strategy for 2012/2013, 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 - new capital project detailed at Appendix A estimated to cost above £250,000.

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

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

Scrutiny Committee

## **Cabinet – 18th July 2012**

### **First 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 Capital Programme for 2012/2013 was first approved in March and also taking account of the Capital Programme Outturn for 2011/2012;
- the inclusion of additional schemes and revisions to costs and resourcing for 2012/2013 since the Capital Programme Review was approved;
- 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.

##### **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 approved by Council on 7<sup>th</sup> March 2012 are shown in section 4 of this report. Those variations that exceed £250,000 in value also need to be approved by Council.

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. First 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 increasing by a maximum of £30.073m from £60.251m to £90.324m. This can be analysed as follows:

- Reprofiled expenditure of £7.648m between 2011/2012 and 2012/2013. The primary reasons for this reprofiling relate to external influences outside of the Council's control and were reported to Cabinet on 20<sup>th</sup> June 2012;
- Reprofiled expenditure of £0.350m between 2013/2014 and 2012/2013;
- Additional fully funded schemes and cost variations notified since the Capital Programme was last reported of £21.880m;
- Technical Adjustments of £0.195m.

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

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

### **4.2.1 Leader**

#### **Newcastle International Airport Ltd**

The airport is currently seeking to re-finance their existing debt portfolio in advance of the current agreements reaching term. Initial analysis suggests that the overall level of debt which can be secured from commercial banks will be lower than previously obtained as a consequence of the prevailing difficult economic and financial climate. This presents an opportunity for the local authority shareholders to inject additional shareholder funds to support the refinancing on a commercial basis.

At this stage Cabinet is requested to recommend to Council that it approves an increase in the 2012/2013 Capital Programme by a maximum of £20m in order that the Council may participate in the re-financing of the airport. The proposal can be financed through prudential borrowing which has been provided for within headroom included in the approved Treasury Management Strategy/Prudential Indicators for 2012/2013 in March 2012 and by temporary use of internal resources to maximise the financial position for the Council.

It is envisaged that the interest and dividends receivable over the course of the financing period will compensate for any additional costs of borrowing incurred by the Council on a worst case scenario basis and that as such the transaction is expected to be at least revenue neutral.

A full business case for the potential transaction will be considered at a future Cabinet meeting.

### **4.2.2 Attractive and Inclusive City**

#### **Local Transport Plan**

The 2012/2013 programme has been increased to reflect the successful outcome of the following grant applications :

#### **Better Bus Area Fund**

A grant of £0.420m has been awarded by the Department for Transport in respect of Borough Road Bus Improvements (£0.360m 2012/2013 and £0.010m 2013/2014) and for the provision of Intelligent Transport Systems to 5 key bus corridors (£0.050m in 2012/2013) .

#### **Local Sustainable Transport Fund**

Funding of £0.952m has been approved by the Department for Transport for a mix of revenue (£0.716m) and capital projects (£0.236m) to deliver an integrated programme of walking, cycling, road safety and public transport initiatives aimed at school children and their parents/guardians over the period 2012/2013 to 2014/2015. Capital projects include the purchase of a camera car to improve road safety by addressing problem parking in the vicinity of schools and improving cycle and pedestrian routes either on road with cycle lanes or off-road with new paths, work will also involve safer crossings and signage and anticipated spend is £0.230m in 2012/2013 and £0.006m in 2013/2014.

### **C2C Cycleway**

Following successful negotiations with the Homes and Communities Agency in respect of the transfer of Riverside Assets, reported to Cabinet on 21<sup>st</sup> March 2012, a sum of £0.542m has been provided for the upgrade of the C2C cycle route in 2012/2013.

## **4.3 Resources**

### **4.3.1 Priority Schools Building Programme (PSBP)**

On 24<sup>th</sup> May 2012, Michael Gove, Secretary of State for Education, announced details of the schools that had been successful in applying to be refurbished or rebuilt under the governments PSBP. Of the 587 schools that applied to be part of the programme 261 were successful. The Council has been successful in all 5 of its bids for new schools to be funded from the PSBP, at Hetton School, Hylton Castle Primary School, Shiney Row Primary School, St Anthony's Catholic Girls Academy and Usworth Grange Primary School. Works required to Usworth Grange Primary have been assessed as highest priority and will be funded from capital grant whilst the other schools will be funded from a new PFI type arrangement to be introduced by the government. The Council is still awaiting detailed guidance on how these schemes operate, however previous advice indicated that the design, procurement and monitoring would be managed outside of the Council by the Education Funding Agency.

The Council will review capital works needed to all schools and the allocation of resources that had not been committed from the Schools Asset Management Programme to specific schemes pending confirmation of the PSBP award. This will necessitate the reprofiling of spend and funding from 2012/2013 into future years and details will be reported to Cabinet at the Second Capital Review in October 2012.

## **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 its 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 May 2012, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.66% compared with the benchmark rate (i.e. the 7 day rate) of 0.45%. Performance is therefore very positive and is significantly above the benchmark rate, whilst adhering to the prudent policy agreed by the Council.
- 5.6 Due to high levels of volatility that currently exist in financial markets, particularly within the Eurozone, the Council is following advice 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

**9. Background Papers**

Sunderland City Council Capital Programme 2011/12 to 2015/16  
Capital Programme Outturn 2011-2012

## Appendix A

### Other variations to the 2012/2013 Capital Programme to those previously reported

	£000	£000
Reprofiling of Expenditure between 2011/2012 and 2012/2013 reported to Cabinet 20 <sup>th</sup> June 2012		7,648
<b>Additional Schemes - Fully Funded</b>		
<b>Leader</b>		
Newcastle International Airport Ltd – Proposed refinancing of Newcastle Airport up to a maximum sum of £20m with detailed sums to be reported to a future Cabinet meeting		20,000
<b>City Services</b>		
Hydrographic Survey – additional Coast Protection grant to carry out survey	15	
C2C Cycleway – Part of HCA land transfer agreement approved by Cabinet 21 <sup>st</sup> March 2012	542	
North Area Skate Park – funded from Strategic Initiatives Budget £0.035m and Section 106 developers contribution £0.045m	80	
Local Sustainable Transport Fund	230	
Better Bus Areas Fund	410	
Coalfields Cycle Route – funded from Section 38 developer contributions	60	
Thompson Park – Demolition of former park keepers house and replacement with new car parking and footpaths fully funded from SIB and Section 106 monies	49	1,386
<b>Variation to Existing Schemes in the Capital Programme - Fully Funded</b>		
<b>Leader</b>		
Sheepfolds Asset Acquisitions - approved by Cabinet 14 <sup>th</sup> March 2012 and funded by Homes and Communities Agency		37
<b>Cabinet Secretary</b>		
Old Sunderland Townscape Heritage Initiative – Former East End Orphanage – additional approval by Cabinet 20 <sup>th</sup> June 2012 of £0.500m towards project funded from New Homes Bonus Grant		500
<b>Public Health, Wellness and Culture</b>		
Football Investment Strategy – review of schemes following rejection of grant application from Coalfields Regeneration Trust		(100)
<b>Health Housing and Adult Services</b>		
Sunderland Energy Efficiency Programme – additional grant to extend programme until 31 <sup>st</sup> December 2012		57
<b>Reprofiling of Capital Spend from 2013/2014 to 2012/2013</b>		
<b>Leader</b>		
Strategic Land Acquisitions – Cabinet 6 <sup>th</sup> June 2012 approved the acquisition of land at High Street West, Sunnyside, Sunderland and the building known as Liverpool House, High Street West, Sunderland. Funding of £0.350m towards these purchases accelerated from 2013/2014		350
<b>Technical Adjustments</b>		
Smarter Working - funding from earmarked reserve	477	
City Centre Improvements - spend and funding transferred from Revenue	68	
Economic Development Provision - spend and funding transferred to revenue	(100)	
Festivals and Events - spend and funding transferred to Revenue	(250)	195
<b>TOTAL VARIATIONS 2012/2013</b>		<b>30,073</b>