

CABINET MEETING – 5 October, 2011
EXECUTIVE SUMMARY SHEET- PART I

Title of Report:

Capital Programme Second Review 2011/2012 (including Treasury Management)

Author:

Executive Director of Commercial and Corporate Services

Purpose of Report:

This report details changes made to the Capital Programme 2011/2012 since the First Capital Programme Review 2011/2012 and provides an update on progress in implementing the Treasury Management Borrowing and Investment Strategy for 2011/2012.

Description of Decision:

Cabinet is recommended to:

In relation to the Second Review of the Capital Programme for 2011/2012:

- approve, and where necessary recommend to Council, the inclusion of additional schemes for 2011/2012 detailed at Appendix A and associated resourcing of the Capital Programme since the First Review was reported to June Cabinet;
- approve re-investment of a North East Enterprise Bond.

In relation to the Treasury Management Strategy for 2011/2012:

- to note the progress in implementing the Treasury Management Strategy for 2011/2012
- to approve amendments to both the Lending List Criteria set out in Appendix B and the Lending List set out in Appendix C.

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 First Capital Programme Review was approved to enable effective budgetary control to be exercised.

Alternative options to be considered and recommended to be rejected:

No alternative options are proposed.

<p>Is this a “Key Decision” as defined in the Constitution?Yes - there are a number of key decisions – these relate to all new capital projects detailed at Appendix A estimated to cost above £250,000 individually.</p> <p>Is it included in the Forward Plan? Yes provisionally - in light of the content of this report this was necessary.</p>	<p>Relevant Scrutiny Committee: Management</p>
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Cabinet – 5th October 2011

Capital Programme Second Review 2011/2012 (including Treasury Management)

Report of the Executive Director of Commercial and Corporate Services

1. Introduction

1.1 This report details:

- reprofiling of projects since the First Capital Programme Review was reported;
- the inclusion of additional schemes and revisions to costs and resourcing for 2011/2012 since the First Capital Programme Review was reported;
- the overall updated Capital Programme following the Second Review;
- the progress in implementing the Treasury Management Strategy for 2011/2012.

2. Description of Decision:

2.1 Cabinet is recommended to:

In relation to the Second Review of the Capital Programme for 2011/2012:

- approve, and where necessary recommend to Council, the inclusion of additional schemes for 2011/2012 detailed at Appendix A and associated resourcing of the Capital Programme since the First Review of the Capital Programme was reported to June Cabinet;
- approve re-investment of a North East Enterprise Bond.

In relation to the Treasury Management Strategy for 2011/2012:

- to note the progress in implementing the Treasury Management Strategy for 2011/2012
- to approve changes to the Council's Lending List Criteria and Lending List.

3. Second Capital Review 2011/2012

3.1 Since the First Capital Programme was reported to Council in June 2011, there are proposed changes to the Capital Programme both in terms of expenditure and resourcing. This reflects changes made as notifications of additional schemes and resourcing since the original programme was set and phasing of schemes as projects are reviewed. In total, reprofiling and other adjustments have led to the 2011/2012 Capital Programme reducing by £4.109 million from £84.701 million to £80.592 million. This reduction can be analysed as follows:

- Reprofiling of expenditure between 2011/2012 and future years.
- Additional fully funded schemes and cost variations notified since the Capital Programme was last reported.
- Technical adjustments.

4. Reprofiling of Expenditure between 2011/2012 and future years

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

4.1 Children and Learning City

Schools Asset Management Priorities

Funding towards access and modernisation works within schools is allocated to those schools with schemes assessed as having a high priority and providing good value for money. The programme of works retains flexibility that allows necessary works, unforeseen when the original programme is developed, to be accommodated. At this stage of the year it is anticipated that £0.816 million of funding currently allocated in 2011/2012 will be reprofiled into 2012/2013.

Maplewood School Replacement

There are no changes to the overall cost of this scheme, however profiling of works to the replacement school following award of the contract have necessitated a transfer of £0.717 million budget from 2012/2013 into 2011/2012. Works on the replacement school began on site in June 2011 and are estimated to be completed by July 2012 with the new school becoming operational for the new term beginning in September 2012.

4.2 Prosperous City

Washington Managed Workspace

The scheme to create 5,200 sq m of floorspace in Washington has been reprofiled into 2012/2013. This follows the Department for Communities and Local Government (CLG) taking over the ERDF approval process from One North East. Washington Managed Workspace is a site, design and build project and will not be appraised by the ERDF team at CLG until the council has carried out a procurement process. The reprofiling will enable the Council to undertake a full procurement exercise prior to submission of a robust business case by 30th November 2011 which will include site details, final designs, costings and outputs.

A decision on ERDF approval is anticipated by the end of February 2012 and the project timetable anticipates work starting on site by the end of April 2012 with building handover by the end of April 2013. To minimise any risk to the Council contracts will not be awarded to the successful tenderer before ERDF approval is received.

4.3 Sustainable Communities

Area Renewal - Hetton Downs

To allow for a structured development, in line with the findings of Neighbourhood Renewal Assessments that have been undertaken in the area. It has been agreed with the Homes and Communities Agency that funding they have provided may be reprofiled into future years. Spend on area renewal initiatives is difficult to forecast and is dependent on legal agreement being reached with property owners in the area. It is anticipated that £1.146 million will be spent in 2011/2012 on purchase of properties in Maudlin Street with £3.000 million being reprofiled into future years to be used for further purchase of homes, of industrial premises and on carrying out of infrastructure works in the area.

5. Additional Schemes and Cost Variations

- 5.1** A number of new schemes have been added to the programme which are fully funded. Full details are set out at Appendix A with the additions not previously reported to Cabint set out below .

5.2 Children and Learning City

The Government has awarded capital funding in 2011/2012 towards enhancing the short break provision available for disabled children and their carers. It is proposed to use this that funding both to support adaptations to homes that would not be covered by Disabled Facilities Grant and other priorities within the safeguarding budget.

5.3 Safer City and Culture

Bowes Railway Museum Wagonshop Repairs

It has been agreed to contribute £0.035 million to Bowes Railway Museum towards development of the Wagon Shop at the site. Initial works will make the building wind and water tight and tackle the most pressing structural needs of the building. By the Council agreeing to provide matched funding Bowes Railway will be able to access £0.134 million of Heritage Lottery Grant funding and will be in a position to bid for a further funding towards other necessary works at the site.

5.4 Prosperous City

North East Enterprise Bond

Cabinet, on 7th June 2006, approved investment of £0.100 million in a five year zero interest North East Enterprise Bond (NEEB). This bond is due to expire in 2011 and it is recommended that funding provided by the Council is re-invested in the NEEB SkillsBridge programme to help enable continuation of work to tackle employability and to create an enterprise culture amongst young people. SkillsBridge will carry on the developments initiated through the initial bond for the next 5 years with the primary aim being to deliver packages of bespoke, sustainable skills and expertise to the voluntary and community sector.

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

- 6.1** The Prudential Indicators for 2011/2012 were approved by the Council on the 2nd March 2011 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 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. To date, the Council has operated within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and at this stage there are no areas for concern or any issues which require any review of the indicators as originally approved.

Borrowing Strategy for 2011/2012

- 6.3 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 those reported to Cabinet at the First Capital Review in June 2011.

	Anticipated Bank Base Rate		Anticipated PWLB 5 year Maturity Rate		Anticipated PWLB 10 year Maturity Rate		Anticipated PWLB 50 year Maturity Rate	
	May 2011	Aug 2011	May 2011	Aug 2011	May 2011	Aug 2011	May 2011	Aug 2011
March 2012	1.00%	0.50%	3.75%	2.90%	4.80%	4.10%	5.30%	5.10%
March 2013	2.00%	1.00%	4.25%	3.40%	5.05%	4.60%	5.50%	5.20%
March 2014	3.00%	2.25%	4.75%	4.10%	5.25%	5.00%	5.65%	5.50%

Economists are now predicting an increase in the Bank of England Base Rate in December 2012 at the earliest (previously this was forecast was for November 2011) and a reduction to previously forecast PWLB rates. There are significant potential risks regarding economic growth and increasing debt levels, particularly within the Euro Zone and America. Economists are advising that due to these risks and market volatility caution must be exercised in respect of all interest rate forecasts at the current time.

- 6.4 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 best value for the Council.

Investment Strategy for 2011/2012

- 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 As at 31st August 2011, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.51% compared with the benchmark rate (i.e. the 7 day rate) of 0.40%. Performance is very positive and is significantly above the benchmark rate, whilst adhering to the prudent policy agreed by the Council.

- 6.7 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. In view of volatility within financial markets it is recommended that the Lending List Criteria is amended to increase amounts approved to be invested for AAA institutions from £50 million to £70 million. This will reduce risk by enabling the Council to increase its investments with those institutions in which the UK Government holds a financial stake and would be very unlikely to allow to fail should the financial situation substantially deteriorate.
- 6.8 The amended investment criteria are set out Appendix B and the amended Lending List is set out in Appendix C for information and endorsement.

Appendix A

Scheme Variations since the First Capital Review 2010/2011

	£000
Reprofiling of Expenditure from 2011/2012 to future years since the First Review	
Children and Learning City	
Schools Asset Management Priorities	(816)
Maplewood Replacement School	717
Prosperous City	
Washington Managed Workspace	(1,267)
Sustainable Communities	
Area Renewal	(3,000)
Total Reprofiling	(4,366)
Additional Schemes and Revisions to Scheme Costs 2011/2012 – fully funded	
Cabinet Secretary	
Port Crane approved Cabinet 20 th July 2011	500
Children and Learning City	
Short Breaks for Disabled Children	100
Safer City and Culture	
Bowes Railway Museum Wagonshop Repairs	35
Other Fully Funded Additional Schemes and Minor Variations	28
Total Additional / Amended schemes	663
Technical Adjustments	
Prosperous City	
City Centre Improvements - expenditure transferred to revenue	(406)
Total Technical Adjustments	(406)
TOTAL VARIATIONS	(4,109)

Lending List Criteria

Appendix B

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisors.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	<u>Maximum Deposit</u> <u>£m</u>	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	70	2 Years
AA+	F1+	A1+	Aa1	P-1	50	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	364 Days
Money Market Funds Maximum amount to be invested in Money Market Funds is £50 million with a maximum of £30 million in any one fund.					50	2 Years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AAA will be applied to that institution to determine the amount the Council can place with that institution.

Where any banks / building societies are part of the UK Government's Credit Guarantee scheme (marked with * in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £300 million will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	300
Non UK	40

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
UK Building Societies	150
Foreign Banks	40

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of AAA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C

Approved Lending List

Appendix C

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
UK	AAA	F1+			Aaa			AAA		300	364 days
Lloyds Banking Group (see Note 1)										Group Limit 70	
Lloyds Banking Group plc	AA-	F1+	C	1	Aa3	-	-	A	A-1	70	364 days
Lloyds TSB Bank Plc	AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1	70	364 days
Bank of Scotland Plc	AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1	70	364 days
Royal Bank of Scotland Group (See Note 1)										Group Limit 70	
Royal Bank of Scotland Group plc	AA-	F1+	C	1	A1	P-1	-	A	A-1	70	364 days
The Royal Bank of Scotland Plc	AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1	70	364 days
National Westminster Bank Plc	AA-	F1+	-	1	Aa3	P-1	C-	A+	A-1	70	364 days
Ulster Bank Ltd	A+	F1+	E	1	A2	P-1	D-	A	A-1	70	364 days
Santander Group *										Group Limit 40	
Santander UK plc	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Cater Allen	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Barclays Bank plc *	AA-	F1+	B	1	Aa3	P-1	C	AA-	A-1+	40	364 days
HSBC Bank plc *	AA	F1+	B	1	Aa2	P-1	C+	AA	A-1+	40	364 days

	Fitch			Moody's				Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS *	AA-	F1+	B	1	Aa3	P-1	C	A+	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	B	1	A2	P-1	C+	A+	A-1	40	364 days
Clydesdale Bank / Yorkshire Bank **	AA-	F1+	C	1	A1	P-1	C-	A+	A-1	10	364 days
Co-Operative Bank Plc	A-	F2	B/C	3	A2	P-1	D+	-	-	5	6 months
Northern Rock ***	BBB+	F2	C	2	-	-	-	A-	A-2	0	
Top 10 Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS	A-	F2	B/C	5	Baa1	P-2	C-	A-	A-2	0	
Coventry BS	A	F1	B	5	A3	P-2	C	-	-	5	6 Months
Skipton BS	A-	F2	B/C	5	Baa1	P-2	D+	-	-	0	
Leeds BS	A	F1	B/C	5	A2	P-1	C+	-	-	10	364 Days
West Bromwich BS ***	BBB-	F3	C/D	5	Baa3	P-3	E+	-	-	0	
Principality BS ***	BBB+	F2	C	5	Baa2	P-2	D+	-	-	0	
Newcastle BS ***	BBB-	F3	C/D	5	Baa2	P-2	D-	-	-	0	
Norwich and Peterborough BS ***	BBB+	F2	C	5	Baa2	P-2	D	-	-	0	
Nottingham BS	-	-	-	-	A3	P-2	C-	-	-	5	6 Months
Foreign Banks have a combined total limit of £40m											
Australia	AA+	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA	F1+	B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	B	1	Aa1	P-1	B	AA	A-1+	20	364 Days

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strenat	L Term	S Term	Limit £m	Max Deposit Period
Commonwealth Bank of Australia	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Westpac Banking Corporation	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	B	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Royal Bank of Canada	AA	F1+	A/B	1	Aa1	P-1	B+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Money Market Funds										50	2 Years
Prime Rate Stirling Liquidity	AAA MMF							AAAm		30	2 Years
Insight Liquidity Fund					AAA MR1			AAAm		30	2 Years
Ignis Sterling Liquidity	AAA MMF							AAAm		30	2 Years

Notes

Note 1 Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AAA rating applied to them thus giving them a revised credit limit of £70 million for a maximum period of 364 days

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme

The counterparties in this section will have an AA rating applied to them thus giving them a revised credit limit of £40 million for a maximum period of 364 days

** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

*** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.

